



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: REPORT TO THE COUNCIL – FINANCIAL AUDIT FOR FISCAL YEAR 2002-03

MEETING DATE: March 3, 2004

PREPARED BY: Finance Director

RECOMMENDED ACTION: That the City Council receives for file the following reports and financial statements submitted by Macias, Gini & Company LLP and the Finance Department for Fiscal-Year 2002-03:

- The Combined Annual Financial & Single Audit Report
- Letter to the Council (SAS 61)
- Report on Applying Agreed-upon Procedures

BACKGROUND INFORMATION: The annual audit was conducted to assure the City Council and other interested parties that the City's financial records and reports are prepared in accordance with generally accepted accounting principles (GAAP), that internal controls are adequate to safeguard the City against loss from unauthorized use or disposition of assets and that the City has complied with all agreements and covenants to obtain grant funds and debt financing. Macias, Gini & Company LLP ("MG") has issued an "unqualified opinion" and Scott Brunner, Director of MG will be present to do the presentation and answer questions during the Council meeting.

The reports will be provided to Federal and State oversight agencies, bond trustees and insurance companies for their review and evaluation. Copies of the reports are provided to the City Council and also available to the public by contacting the Finance Department or at the Lodi Public Library for reference.

Certificate of Achievement

The City received a Certificate of Achievement for Excellence in Reporting from the Government Finance Officers Association of United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO) for the ninth year in a row. Copies of these certificates are included in the 2002-03 Financial Report.

Acknowledgments

The Accounting staff of the Finance Department should be commended for their hard work and professionalism in preparing the City's Annual Financial Reports especially during the implementation of GASB Statement No. 34 and the transition to a new audit firm; it is due to their dedication to excellence and to the City that made Lodi recognized by the auditors and other professional financial organizations.

FUNDING: None

Vicky R. Painte for
Vicky McAthie, Finance Director

VM/kb
Attachments

APPROVED:

H. Dixon Flynn
H. Dixon Flynn, City Manager

CITY OF LODI

Report to Management

For the Fiscal Year Ended June 30, 2003

CITY OF LODI
Report to Management
For the Fiscal Year Ended June 30, 2003

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February 6, 2004

To the City Council
of the City of Lodi

We have audited the financial statements of the City of Lodi, California (City) for the fiscal year ended June 30, 2003, and have issued our report thereon dated January 13, 2004. Professional auditing standards require that we provide you with the following information related to our audit.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 16, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

II. Significant Accounting Policies

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

As described in Note 1 to the financial statements, the City changed accounting policies related to financial statement presentation and disclosures by adopting Governmental Accounting Standards Board (GASB) Statement Nos. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and 38, *Certain Financial Statement Note Disclosures*, in 2003. The City also changed accounting policies related to recognition of certain liabilities and expenditures by adopting GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, in 2003. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in Note 17. The City also changed accounting policies related to derivative disclosures by adopting GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, in 2003.

During 2003, the City executed two transactions with Citigroup, which comprised 1) the termination of an existing \$42 million fixed-to-floating swap maturing 2014 and 2) the execution of a new \$42 million fixed-to-floating swap maturing 2009. In accordance with GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, the City has made the required disclosure in Note 8 to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were (1) depreciation, (2) allowance for doubtful accounts, (3) compensated absences, and (4) self-insurance liability. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

IV. Audit Adjustments

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City’s financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we posed, whether recorded or unrecorded by the City, either individually or in aggregate, indicate matters that could have a significant effect on the City’s financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VII. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

VIII. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City of Lodi and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Sacramento, California
February 6, 2004

City of Lodi
Schedule of Uncorrected Misstatements
June 30, 2003

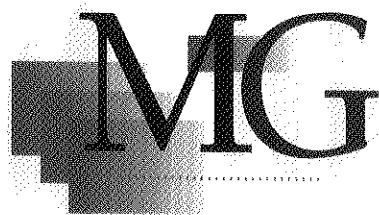
PJE #	Opinion Unit		Fund	Account Description	Asset	Liability	Equity	Revenue	Expense / Expenditure
	Activity	Fund							
1	Business-type	Remaining	Transit Fund	Accumulated Depreciation	2,921	-	-	-	-
	Business-type	Remaining	Transit Fund	Depreciation expense	-	-	-	-	(2,921)
To adjust depreciation expense per the financial statements to detailed spreadsheet.									
2	Business-type	Electric	Electric	Depreciation Expense	4,452	-	-	-	-
	Business-type	Electric	Electric	Accumulated Depreciation	-	-	-	-	(4,452)
To adjust depreciation expense per the financial statements to detailed spreadsheet.									
3	Business-type	Wastewater	Wastewater	Depreciation expense	1,144	-	-	-	-
	Business-type	Wastewater	Wastewater	Accumulated Depreciation	-	-	-	-	(1,144)
To adjust depreciation expense per the financial statements to detailed spreadsheet.									
4	Governmental	-----	-----	Accumulated Depreciation	115,142	-	-	-	-
	Governmental	-----	-----	Net assets, beginning of year	-	-	351,486	-	-
	Governmental	-----	-----	Depreciation expense	-	-	-	-	(466,628)
To adjust depreciation expense to actual, as this amount represents an additional year of depreciation									
5	Governmental	Remaining	ISF	Depreciation expense	-	(1,419)	-	-	-
	Governmental	Remaining	ISF	Accumulated Depreciation	-	-	-	-	1,419
To adjust the workers compensation claims liability to the 2002 actuarial study 70% confidence level.									
6	Governmental	-----	-----	Debt Principal	-	1,380	-	-	-
	Governmental	-----	-----	Cash	(1,380)	-	-	-	-
To adjust West America capital lease payment to the 'debt service - principal payments' expenditure line.									
7	Business-type	Wastewater	Wastewater	Interest payable	-	53,250	-	-	-
	Business-type	Wastewater	Wastewater	Net assets, beginning of year	-	-	(54,077)	-	-
	Business-type	Wastewater	Wastewater	Interest expense	-	-	-	-	827
To reduce interest expense and interest payable, to properly accrue interest expense at June 30, 2003.									
8	Governmental	General	General	Due from other funds	(229,120)	-	-	-	-
	Governmental	General	General	Advance to other funds	229,120	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Due to other funds	-	229,120	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Advances from other funds	-	(229,120)	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Due from other funds	(763,291)	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Advance to other funds	763,291	-	-	-	-
	Governmental	Remaining	Streets	Due to other funds	-	690,291	-	-	-
	Governmental	Remaining	Streets	Advances from other funds	-	(690,291)	-	-	-
	Governmental	Remaining	Hutchings Street Square	Due to other funds	-	73,000	-	-	-
	Governmental	Remaining	Hutchings Street Square	Advances from other funds	-	(73,000)	-	-	-
	Business-type	Electric	Electric	Due from other funds	(2,050,000)	-	-	-	-
	Business-type	Electric	Electric	Advance to other funds	2,050,000	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Due to other funds	-	2,050,000	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Advances from other funds	-	(2,050,000)	-	-	-
	Business-type	Water	Water	Due from other funds	(1,396,764)	-	-	-	-
	Business-type	Water	Water	Advance to other funds	1,396,764	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Due to other funds	-	1,396,764	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Advances from other funds	-	(1,396,764)	-	-	-

To reclass due to/from that are long-term in nature to advance from/to.

CITY OF LODI

Independent Accountant's Report
On Applying Agreed-Upon Procedures
Related to the Article XIII-B
Appropriations Limit Calculation

For the Year Ended June 30, 2003



Macias, Gini & Company LLP

Certified Public Accountants and
Management Consultants



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The Honorable City Council
City of Lodi
Lodi, California

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES RELATED TO THE ARTICLE XIII-B
APPROPRIATIONS LIMIT CALCULATION**

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet for the City of Lodi, California (City) for the year ended June 30, 2003. These procedures, which were agreed to by the City and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitutions*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The City's management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets supporting the Appropriations Limit Worksheet and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit Worksheet, we added last year's limit to the annual adjustment amount, and compared the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information presented in the accompanying Appropriations Limit Worksheet to the other worksheets described in No. 1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Worksheet to the prior year appropriations limit adopted by the City Council in the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the City Council and management of the City of Lodi and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Macias, Gini & Company LLP

Certified Public Accountants

Sacramento, California
July 28, 2003

**CITY OF LODI
APPROPRIATIONS LIMIT WORKSHEET
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Amount
2001-2002 Appropriations Limit	<u>\$ 56,959,824</u>
2003 Adjustment factors:	
Population*	1.0214
Inflation**	<u>0.9873</u>
Total 2003 adjustment factors	<u>1.0084</u>
Annual adjustment	<u>480,070</u>
2002-03 Appropriations Limit	<u><u>\$ 57,439,894</u></u>

* The population factor is based on the increase within the City of Lodi

** The inflation factor is based on the percentage change in California's per capita personal income.



**CITY OF LODI, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2003**

CITY OF LODI, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT Year Ended June 30, 2003

SUSAN HITCHCOCK, MAYOR
EMILY HOWARD, MAYOR PRO TEMP
JOHN BECKMAN, COUNCILMEMBER
LARRY HANSEN, COUNCILMEMBER
KEITH LAND, COUNCILMEMBER
H. DIXON FLYNN, CITY MANAGER

Prepared by the Finance Department
Vicky McAthie, Finance Director/Treasurer
Ruby Paiste, Accounting Manager
Corlene Wadlow, Sr. Accountant
Odette Bondoc, Accountant II

INTRODUCTORY SECTION

CITY OF LODI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2003

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CITY COUNCIL

SUSAN HITCHCOCK, Mayor

EMILY HOWARD, Mayor Pro

Tempore

COUNCILMEMBERS:

JOHN BECKMAN

LARRY HANSEN

KEITH LAND

January 13, 2004

CITY OF LODI

CITY HALL, 221 WEST PINE STREET

P.O. BOX 3006

LODI, CALIFORNIA 95241-1910

(209) 333-6706

FAX (209) 333-6795

H. DIXON FLYNN

City Manager

SUSAN BLACKSTON

City Clerk

RANDALL A. HAYS

City Attorney

**To the Honorable Mayor, Members of the City Council
and Manager of the City of Lodi:**

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003, is hereby submitted. This report is provided to present the financial position, results of operations and cash flows of the City's proprietary funds as of June 30, 2003, in conformity with generally accepted accounting principles. The report conforms to the highest standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), for reporting by State and local governments. The responsibility for the accuracy, fairness and completeness of the report rests with the City.

This report consists of management's representations concerning the finances of the City of Lodi. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Lodi has established comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. We believe that the information is accurate in all material respects and that it is presented in a manner designed to fairly present the financial position of the City. In addition, we believe that all disclosures necessary to enable the reader to gain full understanding of the City's financial activities have been included.

The CAFR is presented in four sections: introductory, a financial section, a statistical section and single audit section. The introductory section includes the transmittal letter, the City's organization chart and a list of principal officials. The financial section includes the independent auditors' report, management discussion and analysis, the basic financial statements, notes to the financial statements, required supplementary schedules, and the combining and individual statements. The single audit section includes the schedule of expenditures of federal awards, notes to the schedule, and reports on compliance and internal control based on the audit of the basic financial statements and on compliance and internal control with requirements applicable to each major program in accordance with OMB Circular A-133. The statistical section includes selected financial and demographic information presented on a multi-year basis.

This is the first year that the Statement No. 34 of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB 34) applies to the City's CAFR. GASB 34 requires management to provide a narrative introduction, overview, and analysis, called Management's Discussion and Analysis (MD&A), to accompany the basic financial statements.

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

THE REPORTING ENTITY AND SERVICES PROVIDED

The funds and account groups included in the CAFR are those deemed dependent upon the City and controlled by the City Council and reflect the City's financial reporting entity in accordance with GASB Statement 14.

The City provides a wide range of municipal services including public safety (police, fire and graffiti abatement), public utilities services (electric, water and wastewater), transportation services (streets, flood control and transit) leisure, cultural and social services (parks and recreation, library and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

Several municipal services are provided through other government agencies, private companies or public utility companies, including:

	Number of Facilities
Elementary and Secondary Schools	13
Sanitation (solid waste) and Cable Television	2
Ambulance	1
Gas and Telephone	2

ECONOMIC CONDITION AND OUTLOOK

The City is located in the San Joaquin Valley between Stockton 10 miles to the south, and Sacramento 35 miles to the north, and adjacent to U.S. Highway 99. The City population is 60,521 and is contained in an area of 12.616 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2007. The City's growth is provided for in both the General Plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

Lodi is built on a strong and broad based agricultural industry with national and industrial markets for its commodities and products. Wines, processed foods, nuts, fruit and milk are major commodities of the Lodi area and provide the basic material for food processing and packaging. These commodities support the operations of General Mills, Guild Winery and Pacific Coast Producers to name just three companies in the business of processing local agricultural commodities.

In addition, Lodi has a wide range of small, financially sound businesses that add to the economic strength of the City. These companies range in size from 10 to 150 employees and produce a wide variety of products, services and commodities.

Over the past several years, there has been an increase in industrial and residential development that has been unprecedented since the early 1980s. This new development combined with the growing strength of the wine/grape industry is a positive indicator for Lodi. The City's focus on economic development has successfully encouraged numerous big industries to move to Lodi that collectively created hundreds of new jobs.

Economic Development

Lodi continues to be committed to promoting economic development (business retention and attraction) and expanding the tax base to fund city services rather than increase taxes to pay for these services. The City developed long and short-term economic development goals in conjunction with the Chamber of Commerce that resulted in the revitalization projects for the downtown and Cherokee Lane areas. In addition to revitalization efforts, the City has adopted a number of incentives to retain and attract new businesses. These incentives included infrastructure improvements, regulatory flexibility, tax credits and utility rate incentives.

MAJOR GOALS, OBJECTIVES AND PROJECTS

To assist the citizens of Lodi understand where the City intends to allocate available resources, the City Council, the City Manager and Department Heads have established a hierarchy of major goals, objectives and major projects that support and re-enforce the City's mission statement.

Four major City goals were established as policy direction and focal points for the efforts of City staff. These goals include:

- Ensure a High Quality of Life and a Safe Environment for Citizens
- Ensure Efficient and Productive City Organization
- Ensure Public Trust, and
- Ensure the Development of the Lodi Economy for a Fiscally Sound City Organization

City Council, the City Manager and Department Heads established nineteen major City objectives:

- | | |
|---|---|
| Maintain City's Sense of Community | Provide Employee Training and Education |
| Provide for a Balanced Community | Evaluate Telecommunications Opportunities |
| Enhance Access through Implementation of Information Systems Strategic Plan | Provide Resources to Maintain City's Infrastructure |
| Promote Urban Forestry | Promote Public Relations and Marketing Efforts |
| Attract, Retain and Invest in A Quality City Work Force | Ensure Open and Accessible Public Meetings |
| Encourage Public Arts, Cultural and Recreational Opportunities | Pursue Efforts to be Entrepreneurial |
| Provide Appropriate and Sufficient City Facilities | Improve Customer Service |
| Develop Short and Long Range Operational Plans | Continue to Use Partnerships to Advance City's Objectives |
| Develop Effective Records Management Program | Provide a Balanced Budget & Adhere to Adopted Policies |
| Promote Commercial/Industrial Base | |

Projects represent the foundation of the planning statements for the City of Lodi. These projects are designed to accomplish specific objectives and become the focus for organization wide effort.

As discussed above, economic revitalization continued to be an active focal point of the City in 2002-03. The following major City projects were planned in the 2001-03 two-year budget document: 1) the construction of a new Public Safety building; 2) construction of an outdoor skate park; 3) construction of the civic center Veterans Memorial; 3) design and development of the DeBenedetti Park/G-Basin; 4) the renovation and expansion of the old Public Safety Building; 5) design and development of the DeBenedetti Park/G-Basin; 6) development and construction of an indoor sports center; 7) design and construction of an aquatics center; 8) construction of a new animal shelter facility; 9) evaluating the feasibility of leasing land for the construction of a sports complex; 10) evaluating the need for providing paramedic/ambulance services; and 11) the implementation of the redevelopment agency.

During fiscal year 2002/03 these projects moved through various phases of the capital improvement project process, and some General Fund projects were then put on hold until a revenue stream is identified.

The slow down in the capital development comes at a time when the cost of City services is increasing leaving less discretionary money. However, the projects identified by the City Councils in the past years remain a high priority.

New Police Building

The new Police Station is under construction and will be completed in January 2004. The cost of the project is approximately \$17.5 million. This building is designed to meet the needs of the Police Department for the next 20 years. The project is being paid for with a grant from the State for \$4 million and Certificates of Participation.

The Police Building is designed to be a 54,000 square foot, two-story building to house police operations, including staff offices and work space, property and evidence handling areas, and storage and mechanical rooms. The facility also includes a 5,600 square foot Type 1 jail, 1,000 square foot dispatch center, and 10,000 square feet of expansion shell space for future growth. The site will also include 100 secure parking spaces for police vehicles, a sally port for prisoner transportation and a shelter for police motorcycles. Trash enclosures and an emergency generator will also be installed on the site.

Outdoor Skate Park

The outdoor skate park was completed in May 2002 and a formal dedication was held in August 2002. The City contracted with Spohn Ranch for temporary management the park and to provide equipment. The cost of the project to the City was approximately \$540,000.

Civic Center Veterans Monument

This project was completed and dedicated in May 2002. The cost of the project was approximately \$490,000 and will be reimbursed to the City by the Veterans Advisory Committee. This Monument consists of a 21.5-foot stainless-steel obelisk, a 7-foot granite sphere, an eternal flame and a pool outlined by blue cobalt tile all under lit. The Monument is in a very visible location by City Hall and has received wide acclaim by the community.

The major Capital Projects that were placed on hold due to budget constraints facing the city in 2003-05 are:

Public Safety Building Remodel and Expansion

The Public Safety Building is over thirty years old and it has many mechanical and design deficiencies. Remodeling this building to provide additional workspace, parking and related site improvements, a complete retrofit of the HVAC system, replacement of jail facility, full compliance with the Americans with Disabilities Act requirements, more space for public safety officers and a Police and Civic center parking structure

DeBenedetti Park/G-Basin

The project consists of design and development of a 40acre, youth sports complex (with lighted fields) and park within the "G-basin", which provides storm water storage in the park. This project is one of the highest unranked projects identified by the Parks and Recreation Commission and the City Council. The estimated cost of the project is \$11.2 million, which is approximately \$5 million greater than the estimate in June 2001. The project has gone through the schematic design and construction design phases. The General Fund portion of the project has been put on hold; however, the portions funded by other sources of revenue are expected to proceed.

Indoor Sports Center

This project consists of development and construction of a 40,000 square foot building to provide space for a gymnasium, exercise rooms, kitchen, meeting rooms and offices for community use. The estimated cost is \$10.9 million and is currently in the schematic design phase. The construction design phase has been completed.

Aquatics Center

This project consists of design and construction of a recreation pool with water features, a 50-meter competitive pool, snack bar, changing rooms, showers, parking and picnic areas. The estimated cost of the project is \$7 million, which is a \$4 million, increase from the estimate made in June 2001. The project passed through the design phase prior to being placed on hold.

Animal Shelter Facility

The Lodi Animal shelter was built in the 1960's to service a community of approximately 26,000. As most shelters built at that time, its purpose was to be a "dog pound", i.e. a place to impound stray and vicious dogs before euthanizing them. The current shelter cannot meet the newly mandated State law or fulfill the expectations of a community eager to provide more humane animal care.

The estimated cost of the project is \$4 million, which is \$1.5 greater than the original estimate made in June 2001. This will be an 18,000 square foot facility on a 3-acre site. It will include kennels, isolation kennels, community classroom, a clinic, storage areas, exercise areas and areas set aside for expansion of kennels.

The project completed the design phase prior to being placed on hold pending identification of a revenue source.

Sports Complex

The City is evaluating the feasibility of leasing land for the construction of a regional sports complex. This project has been on the drawing board since 1993 pending an environmental study and community input. The project is projected to significantly increase tourism to Lodi and the Central Valley however at this time does not appear financially feasible for the company wishing to lease the land

Paramedics

The City is evaluating the need for providing paramedic/ambulance services. A private company currently provides this service. The City Council has approved placing paramedics on the engines at this time.

Redevelopment Agency

The greater parts of the historic business and residential areas of Lodi are located in the eastern third of the City. The age of the buildings and infrastructure in this area is between 40 to 90 years old. Many of the buildings reflect the charm of the buildings constructed between the 1890s and 1930s. Many long time residents and businesses continue to live and conduct business in this area. Over the last fifteen to twenty years, private investment has shifted to the City's newer areas in the west and south areas of the City and the number of resident property owners in the "Eastside" areas have decreased. Accordingly, this area has experienced a decline in the level of investment, property maintenance and relative property values. The City Council is committed to maintaining the historic and economic vitality of this area and accordingly, the City has begun the steps necessary to form a Redevelopment Agency to preclude blight and decay and to encourage private investment.

FINANCIAL INFORMATION, MANAGEMENT AND CONTROL

A detailed understanding of the financial position and operating results of the City is provided in the following sections of this report. The following is a brief description of the City's financial condition, management practices and control techniques.

Basis of Accounting

Basis of accounting refers to the policy as to when revenues, expenditures or expenses are recognized in the financial accounts and reported in the financial statements. The City's accounting records for general government operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable. Expenditures are recorded when the services or goods are received and the liability incurred. For proprietary fund types, the City uses the accrual basis of accounting. As such, the measurement focus is on net income in addition to financial position and changes in financial position. Revenues are recognized when earned and expenses are recognized as the liability is incurred. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Accounting System and Budgetary Control

In developing the City's accounting system, consideration is given to the adequacy of the internal controls. The objective of the City's internal accounting controls is to provide reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; and to ensure that transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that estimates and judgments are required to be made by management in evaluating these costs and benefits.

In addition, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Although the City utilizes a two-year Financial Plan format the budget is adopted annually. The City Manager is responsible for the preparation of the budget and its implementation after adoption. The City Council has the authority to amend the budget at any time during the year. The City Manager has the authority to make adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end balances. During fiscal year 2002-03, the City Council and City Manager made several supplemental budget appropriations the majority of which relate to capital projects.

Fund Balance

It is the City's goal to target and maintain an unreserved, undesignated fund balance in the General Fund and working capital balances in the Electric, Water and Wastewater enterprise funds of at least 15% of operating expenditures. This goal allows for variations from year-to-year to account for economic and fiscal changes. The General Fund maintained a fund balance of \$1,566,708 or 4.23% of operating expenditures at the end of fiscal year 2002-03. The decrease in the fund balance is of concern to the City Council and will be addressed over the next two fiscal years by a cut in expenditures, an increase in revenues, or a combination of both.

Carryover Policy

A two-year Financial Plan and Budget format provides the City Council and staff with the opportunity to commit operating funds to services over a two-year time frame rather than the traditional one-year period. Under a one-year budget, appropriations lapse at the end of the fiscal year and favorable budget balances are no longer available for operating expenditures except when encumbered under contractual agreements. The two-

year Financial Plan and Budget allows for the unexpended operating budget balances to be carried forward to the second year of the Financial Plan provided that the fund balance exceeds the required operating reserve.

Cash Management

The City has written investment policies that address a wide range of investments. These policies describe the City's investment objectives, investment authority, allowable investment vehicles, maturity terms and eligible financial institutions. They also describe the City's capital preservation and cash management objectives. As provided in the policy, investments are intended to be held until maturity and investment terms are to be consistent with the City's cash flow needs. Investment reports are issued both monthly and quarterly to the City Manager and City Council to provide detailed information regarding the City's investments and compliance with City policy and as required by state law. An important objective of the City's investment policy is to achieve a reasonable rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the City's investment portfolio, investments are expected to yield a rate of return that regularly meets or exceeds an average rate of return on a three-month U.S. Treasury Bill.

The City received an award again this fiscal year from the Municipal Treasurer's Association of the United States and Canada (MTA) for the Investment Certification Program. This award program is designed to recognize outstanding written investment policies and to provide professional guidance and assistance in developing and improving existing investment policies in the government sector. In addition, the Treasurer and Deputy Treasurer of the City are Certified California Municipal Treasurers (CCMT).

Appropriation Limitation

Article XIII B of the Constitution of the State of California (Proposition 4) provides for the limitation of expenditures by state and local governments. Under the provisions of this article, City appropriations funded through tax sources may not exceed Fiscal Year 1979 appropriation levels except as adjusted for increases in population and the growth in the California per capita income or non-residential assessed valuation due to new construction within the city.

Excluded from the limitation are appropriations funded through charges for services, fines and forfeitures, grants, transfers of service responsibilities between government agencies and indebtedness incurred prior to Fiscal Year 1979. Pursuant to subsequent legislation adopted after Article XIII B, the City is required to annually establish and adopt its appropriations limit by resolution. For 2002-03, the City's appropriations subject to limit were \$28,013,113 and the appropriation limit was \$57,439,894 a favorable variance of \$29,426,781.

Debt Administration

At June 30, 2003, the City had outstanding Certificates of Participation of \$136,007,124. These liabilities are discussed in Note 7 of the Basic Financial Statements and summarized below.

The City issued a \$5.0 million Certificates of Participation (1995) COP to fund its share of the improvements downtown and Cherokee Lane. These bonds were recently refunded by the issuance of the 2002 Certificates of Participation. The City also issued a \$1.97 million limited obligation improvement bonds for the Central City Revitalization Assessment District on July 22, 1996. The improvement bonds of the assessment district are not general obligations of the City.

The City also issued \$10.12 million for the renovation of the Performing Arts Center on August 1, 1996; the 2002 Certificates of Participation also refunded these bonds. In addition, the Electric Utility issued \$43.96 million Certificates of Participation to finance the costs of certain improvements

to the distribution and transmission facilities of the City's electric system. These bonds were also refunded by the issuance of the 2002 Electric Systems Revenue Certificates of Participation. The City is also authorized to issue up to \$16 million for the Environmental Abatement Program for the clean up effort of the groundwater contamination of PCE/TCE around the downtown area.

On November 2002, the City issued the 2002 Revenue Certificates of Participation Series C for \$21,225,000 and 2002 Series D for \$22,740,000, to buy out the energy purchase agreement entered into by the City in January 2002 with Calpine.

The City's debt management policy includes a commitment to monitor all forms of debt annually during the preparation of the City's Financial Plan and Budget to ensure compliance. Also, the City will generally conduct financing on a competitive basis, will seek an investment grade rating on any direct debt and will obtain credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost effectiveness.

Interim Financial Reporting

Monthly financial reports are prepared to present the City's financial condition and results of operations. These executive reports are organized using the "pyramid" approach. As such, the highest level of summary data is presented first, followed by progressively greater levels of detail. The reports provide current period and year to date revenues, expenditures and encumbrances for all activities and funds, including year to date estimates and variances.

Single Audit

The City is subject to financial and compliance reporting required by the Single Audit Act Amendments of 1996 and OMB 133, which is a requirement of all local and state governments receiving federal financial awards. As part of the Single Audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial awards, as well as to determine that the City has complied with certain applicable laws and regulations governing federal funds. The Single Audit report is published as part of the annual financial statements for easy reference.

Competitive Bidding Policy

All required purchases for materials, equipment and services during 2002-03 were made pursuant to competitive bidding procedures as established under the City's purchasing ordinance. Contracts for construction projects were awarded pursuant to competitive bidding procedures established by the State of California for projects in excess of \$5,000.

Risk Management

The City is self-insured for dental care, workers' compensation, general liability and unemployment insurance. General liability and workers' compensation are administered by outside agencies. The City administers unemployment insurance. Self-insurance transactions are accounted for under the City's Claims and Benefits Fund. At June 30, 2003, the Claims and Benefits Fund had a deficit of \$2,176,869. The City is implementing a phased deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

INDEPENDENT AUDIT

The City Council requires an annual audit of the records and accounts of the City by an independent certified public accountant. To ensure internal control periodically the City conducts a request for proposal (RFP) process for auditing services. The accounting firm of Macias, Gini & Company LLP was selected to perform this audit. The independent auditors' report precedes the basic financial statements and concludes that the City's

basic financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

CERTIFICATES OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO), both awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. These Certificates of Achievement are prestigious national and state awards recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

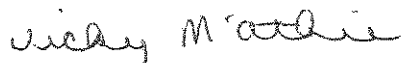
A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last nine years (fiscal years ended June 30, 1993 through 2002). The incorporation of the GASB 34 requirements changed the presentation of the financial statements this year, however, we believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

ACKNOWLEDGMENTS

As always the professionalism, dedication and efficiency of the Finance Department Accounting staff made it possible for the timely preparation of this report and are to be commended. I would also like to personally thank Ruby Paiste, Accounting Manager, and Cory Wadlow, Senior Accountant, and Tyson Mordhorst, Programmer Analyst. Meeting the challenges of GASB 34 required an enormous amount of attention to detail and many long hard hours of work. Their work in preparing this year's CAFR was greatly appreciated.

I would also like to thank you for your continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Vicky McAthie
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lodi,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

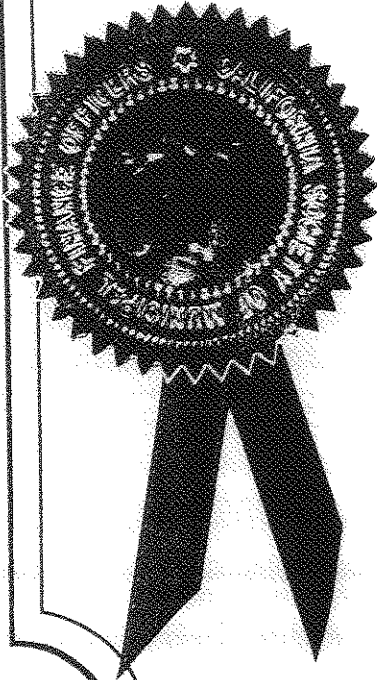
Outstanding Financial Reporting 2001-2002

Presented to the

City of Lodi

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

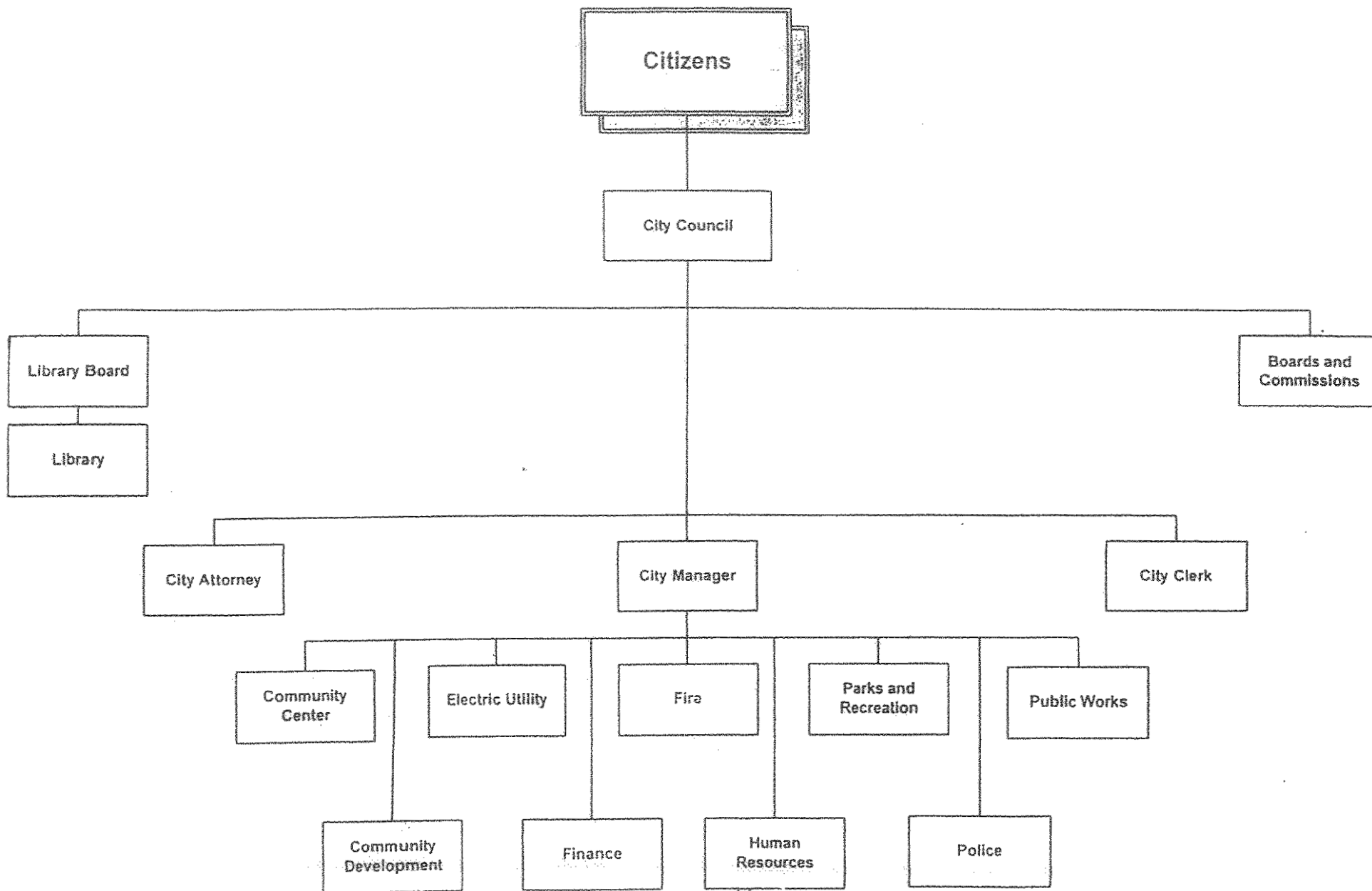
February 24, 2003



Bret M. Plimlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



DIRECTORY OF OFFICIALS AND ADVISORY BODIES

CITY COUNCIL

Susan Hitchcock
Emily Howard
John Beckman
Larry Hansen
Keith Land

Mayor
Mayor Pro Temp
Council Member
Council Member
Council Member

ADVISORY BODIES

Planning Commission
Library Board
Recreation Commission
Site Plan and Architectural Review Committee

Eastside Improvement Committee
Lodi Arts Commission
Youth Commission
Lodi Senior Citizens' Commission

PRINCIPAL ADMINISTRATIVE OFFICERS

H. Dixon Flynn
Randall Hays
Susan Blackston
Nancy Martinez
Vicky McAthie
Mike Pretz
Charlene Lange
Joanne Narloch
Richard Prima
Alan Vallow
Konradt Bartlam
Jerry Adams
Roger Baltz

City Manager
City Attorney
City Clerk
Library Services Director
Finance Director/Treasurer
Fire Chief
Community Center Director
Human Resources Director
Public Works Director
Electric Utility Director
Community Development Director
Police Chief
Parks & Recreation Director

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Fire Chief
Community Center Director
Human Resources Director
Public Works Director
Electric Utility Director
Community Development Director
Police Chief
Parks & Recreation Director

FINANCIAL SECTION

The Financial Section is comprised of the Independent Auditors' Report, Management Discussion and Analysis, Basic Financial Statements, including the notes, required Supplementary Information, and Supplementary Information which includes Combining and Individual Fund Statements and Schedules.



Macias, Gini & Company, LLP

Certified Public Accountants and
Management Consultants

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www.maciasgini.com

The Honorable Members of City Council
City of Lodi, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; GASB Statement No. 36, *Receipt Reporting for Certain Shared Nonexchange Revenues*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments – Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*; and GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets* during the current year.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 12, the schedule of funding progress – pension plan on page 73, and schedule of revenues, expenditures and changes in fund balance – budget and actual – General Fund on page 74 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias, Gini & Company LLP

Certified Public Accountants

Sacramento, California
January 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report is presented as discussion and analysis of the financial performance of the City of Lodi (the City) for the fiscal year ended June 30, 2003.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lodi exceeded its liabilities at the close of the 2003 fiscal year by \$152,879,481 (net assets). Of this amount, \$17,603,058 is a deficit (unrestricted net assets), needed to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$26,733.
- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$17,948,767, a decrease of \$8,496,389 in comparison with the prior year. Of this amount, \$10,616,510 is available for spending at the City's discretion (unreserved fund balance).
- At the close of the fiscal year, fund balance for the general fund was \$1,566,708 or 4.23 % of total general fund expenditures of \$37,040,427.
- The City's total long-term debt increased by \$ 43,284,825 (39.9%) during the current fiscal year. The key factor in this increase was the issuance of \$43,965,000 in certificates of participation for the Electric Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the Financial Statements. This report also includes other **supplementary information** in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public protection, public works, library, and parks and recreation. The business-type activities of the City include electric operations, wastewater system, water operations and public transit system.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: Governmental funds, Proprietary funds, and Fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects and debt service). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts a two-year budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with this budget.

Proprietary Funds. Proprietary funds are generally used to account for services for which the City charges customers-either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Electric, Wastewater, Water, all of which are considered to be major funds and the Transit system, which is considered to be a nonmajor proprietary fund.
- **Internal Service fund** is used to report activities that account for various employee benefits and self-insurance activities of the City. Because these activities predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The activities of the Downtown and Cherokee Lane and the Industrial Way-Beckman special assessment districts are accounted for and reported under the fiduciary funds. The activities of the private sector trust and the Holz bequest are also accounted for under the fiduciary funds. Since the resources of this fund are not available to support the City's own programs, it is not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees, and a schedule comparing budget to actual in the General Fund.

Combining Statements

The combining statements in connection with non-major governmental funds and fiduciary funds are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements - and Management's Discussion and Analysis (MD & A) - for State and Local Governments. Because this reporting model significantly changes both the recording and the presentation of financial data, the City has not restated prior fiscal years for the purpose of providing comparative information for the MD & A. In future years, when prior year information is available, a comparative analysis of government-wide data will be included in this report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lodi, assets exceeded liabilities by \$152,879,481 at the close of the current fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lodi's Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and other assets	\$ 24,253,428	80,895,348	\$ 105,148,776
Capital assets	117,334,991	99,101,161	216,436,152
Total assets	<u>141,588,419</u>	<u>179,996,509</u>	<u>321,584,928</u>
Liabilities:			
Long-term liabilities outstanding	37,475,374	114,269,625	151,744,999
Other liabilities	3,955,379	13,005,069	16,960,448
Total liabilities	<u>41,430,753</u>	<u>127,274,694</u>	<u>168,705,447</u>
Net assets:			
Invested in capital assets, net of related debt	94,680,680	62,751,969	157,432,649
Restricted	12,810,536	239,354	13,049,890
Unrestricted	(7,333,550)	(10,269,508)	(17,603,058)
Total net assets	<u>\$ 100,157,666</u>	<u>52,721,815</u>	<u>\$ 152,879,481</u>

An additional portion of the City's net assets, \$13,049,890 (8.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets represents a deficit of \$17,603,058. At the end of the current fiscal year, the City is able to report positive balances in two of the three categories of net assets for the government as a whole. Unrestricted net assets are negative for both the governmental activities and the business-type activities. The deficit in unrestricted net assets in the governmental activities at the end of the year was \$7,333,550 caused primarily by the accrual of compensated absences of \$6,723,389 and the inclusion of the internal service fund in the governmental activities that had negative net assets of \$2,176,869.

Refer to pages 8-9 for analysis of the business-type activities and internal service fund negative unrestricted net assets.

City of Lodi's Changes in Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 3,873,478	61,457,486	\$ 65,330,964
Operating grants and contributions	3,315,488	1,772,069	5,087,557
Capital grants and contributions	6,814,312	6,565,948	13,380,260
General revenues:			
Property taxes	6,398,164		6,398,164
Other taxes	8,846,168		8,846,168
Grants and contributions not restricted to specific programs	8,639,582		8,639,582
Other	3,835,412	8,051,096	11,886,508
Total revenues	<u>41,722,604</u>	<u>77,846,599</u>	<u>119,569,203</u>
Expenses			
General government	12,237,616		12,237,616
Public protection	16,631,944		16,631,944
Public works	10,946,025		10,946,025
Library	1,453,769		1,453,769
Parks and recreation	3,989,438		3,989,438
Interest on long-term debt	1,214,565		1,214,565
Electric		51,387,848	51,387,848
Wastewater		6,141,172	6,141,172
Water		12,879,363	12,879,363
Transit		5,388,541	5,388,541
Total expenses	<u>46,473,357</u>	<u>75,796,924</u>	<u>122,270,281</u>
Changes in net assets before special items and transfers	(4,750,753)	2,049,675	(2,701,078)
Litigation settlements		2,727,811	2,727,811
Transfers	2,980,631	(2,980,631)	
Changes in net assets	(1,770,122)	1,796,855	26,733
Net assets at beginning of year	101,927,788	50,924,960	152,852,748
Net assets at end of year	<u>\$ 100,157,666</u>	<u>52,721,815</u>	<u>\$ 152,879,481</u>

ANALYSIS OF CHANGES IN NET ASSETS

Governmental activities.

Governmental activities decreased the City's net assets by \$1,770,122. The key elements of this decrease are shown in the table on the previous page. The City has not restated prior fiscal years therefore comparative analysis has not been presented, as data for the prior year is not available.

Business-type activities.

Business-type activities increased the City's net assets by \$1,796,855. This reflects primarily the increase in utility rates combined with the decrease in bulk power costs and litigation settlements.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds.

The focus of the City of Lodi's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,948,767, a decrease of \$8,496,389 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$639,652, while total fund balance was \$1,566,708. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Fund balance represents 4.23% of total general fund expenditures.

Expenditures exceeded revenues in the General Fund and transfers for capital improvements and the increased cost of medical benefits, dental, long-term disability and workers' compensation resulted in a decrease of \$1,797,214 of the fund balance in the General Fund.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets for the Electric fund and the Wastewater fund at the end of the year amounted to \$9,437,767 and \$2,166,175 respectively. The deficit in unrestricted net assets in the Water Fund amounted to \$19,161,527 resulting primarily from legal expenses and interest accrued relating to the Environmental Abatement Program bonds issued to finance the groundwater contamination (PCE-TCE) litigation.

The deficit in the Transit fund resulted from not only overages/underfunded capital projects but also due to a reduction of overall revenue, creating shortages in the operations account as well. Staff is now working on several ways to eliminate the deficit. One of these options would be to request a loan from the Measure K Transit account. Then annual payments will be made from possible funding sources including future TDA funding, Measure K maintenance or impact fees as applicable. Eligible capital expenditures may also be reimbursed from these funds. These determinations will be made in FY 2003/04.

The Internal Service Fund is reporting a deficit in unrestricted net assets as a result of the City not fully funding its self-insurance activities. The City plans to implement the deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

Other factors concerning the finances of these funds are discussed in the City of Lodi's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the General Fund were \$ 3,047,748 increase in appropriation and can be briefly summarized as follows:

- \$1,426,258 in miscellaneous increases in general government activities
- \$819,471 in increases allocated to public protection
- \$317,380 in increases allocated to public works
- \$39,590 in increases allocated to library
- \$445,049 in increases allocated to parks and recreation

Of this increase, \$282,514 was from carry-over of encumbered purchases and contracts from prior fiscal year, \$427,070 for various special allocations, \$380,066 was for appropriations for various grants primarily the after school programs, \$123,312 for the additional lease payment for the new fire truck funded by impact fees, \$77,000 for cost of contract employees funded by Electric Fund, \$284,010 was offset by miscellaneous revenues.

The remaining balance of \$1,473,776 was for the miscellaneous increases in various employee benefits i.e. medical, dental, long-term disability, workers' compensation and general liability.

Significant differences between the final budget and the actual revenues and expenditures can be briefly summarized as follows:

- Under the intergovernmental revenues - PERS Surplus estimated revenue was \$700,000 but the City has elected to use the credit to offset PERS rate increases.
- Investment income was estimated at \$462,465 and actual interest was (\$14,991). Interest is allocated monthly based on cash balance in each fund. The decrease in investments earnings is due to low cash balances and a cash deficit at year-end.
- Rental income was estimated at \$361,739 and the actual was \$240,400. Rent for parks and recreation facilities were down caused by the reconstruction of Stockton Street – location of building rentals.
- Under the expenditures, a favorable variance between the final budget and actual expenditures was \$1,484,138. Factors contributing to this difference are the following: Full time salaries are budgeted at E (top) step and vacancies are also budgeted. The General Fund had 20 vacancies at an average annual salary of \$50,000.

Capital Assets and Debt Administration

Capital assets.

The City of Lodi's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$216,436,152 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in the City of Lodi's investment in capital assets for the current fiscal year was 6.7% (a 6.21% increase in governmental activities and a 7.28% increase for business-type activities) as shown in the table below.

Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 23,799,732	\$ 22,425,347	\$ 5,306,754	\$ 5,306,754	\$ 29,106,486	\$ 27,732,101
Buildings and Improvements	27,870,536	25,693,317	25,550,704	26,004,956	53,421,240	51,698,273
Machinery and Equipment	2,012,782	2,456,554	55,254,723	48,964,979	57,267,505	51,421,533
Vehicles	2,120,683	2,419,439	2,862,302	2,565,035	4,982,985	4,984,474
Infrastructure	49,068,135	40,063,588			49,068,135	40,063,588
Work of Art	62,024				62,024	
Construction in Progress	12,401,099	17,412,056	10,126,678	9,530,172	22,527,777	26,942,228
Total	<u>\$ 117,334,991</u>	<u>\$ 110,470,301</u>	<u>\$ 99,101,161</u>	<u>\$ 92,371,896</u>	<u>\$ 216,436,152</u>	<u>\$ 202,842,197</u>

Additional information on the City of Lodi's capital assets can be found in note 6 on pages 42-44 of this report.

Long-term debt.

At the end of the current fiscal year, the City of Lodi had total bonded debt outstanding of \$136,007,124. Of this amount, \$26,015,000 was for the funding of the new public safety building, the performing arts center and the downtown and Cherokee Lane improvements. The total of \$109,992,124 for the business-type activities include the \$9,224,823 for the Wastewater fund, \$14,500,000 for the Environmental Abatement program of the Water fund, and \$86,267,301 for the Electric fund.

City of Lodi's Outstanding Debt

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Certificates of Participation	\$ 26,015,000	109,992,124	136,007,124

The City of Lodi's total bonded debt increased by \$42,359,072(45%) during the current fiscal year. The key factor in this increase was a \$43,965,000 revenue bonds issued for the Electric Systems on November 2002 to buy out the Calpine energy purchase agreement entered into by the City in January 2002.

The City maintains an "AAA" rating from Standard & Poor's and Fitch, Inc. The revenue bonds of the Electric Systems have been rated by these two rating agencies and given an "AAA."

Additional information on the City of Lodi's long-term debt can be found in note 8 on pages 45-55 of this report.

Economic factors and next year's budget and rates

State and Local Economy.

The State of California is facing a major financial crisis with a projected shortfall of \$38 billion for the 2003-04 fiscal year. The State adopted a budget in early August 2003 that relied on \$10.7 billion in deficit bonds to cover a large piece of the shortfall over five years. It also leaves the State facing a nearly \$8 billion deficit in the fiscal year beginning July 1, 2004. A key credit rating agency said the State's budget fails to fix the problems that drove the State into its worst fiscal crisis by relying too heavily on one-time fixes and fails to correct an imbalance in the State's spending and revenues.

Mandates and the State Budget.

A current budget bill that will defer or suspend mandates in the current budget year is in draft form. Under this bill, programs that receive funding of \$1,000 or less is deferred. Programs such as the "Open Meetings Act Notices" and the "Police Officers Procedural Bill of Rights" may not be reimbursable. However, the City will be required to submit claims and may be reimbursed at a later date.

The Budget in brief.

The following is a summary of significant changes in the City's 2003-05 budget:

General Fund

General Fund revenues are projected to increase by 5.6% and operating expenditures are projected to increase by 14.6%. The increase in projected revenues reflects an increase primarily in tax revenues. The increase in projected expenditures reflects an increase in staffing for the Police and Fire departments, increase in PERS rates, increase in liability insurance, and an increase in workers' compensation costs. PERS rates are increasing 39% or \$937,263 in fiscal year 2003-04 and 61% or \$2,032,972 in fiscal year 2004-05. Medical costs are increasing 20.9% or \$571,500 and 15% or \$494,430 in fiscal years 2003-04 and 2004-05 respectively. Workers' compensation is increasing 37.4% or \$451,675 in fiscal year 2003-04 and 4.9% or \$81,215 in fiscal year 2004-05. Liability insurance likewise, is increasing 3.9% or \$35,686 and 7% or \$66,625 in fiscal years 2003-04 and 2004-05, respectively. Employee salaries will also increase by 5% or \$1,167,950 in fiscal year 2003-04, which allows for salary increases and cost of living adjustments negotiated with various bargaining units.

The City is currently reviewing its 2003-05 budget to address the impact of the Vehicle License Fee (VLF) backfill gap. The State has withheld three months of the VLF backfill totaling \$554,692 beginning August 2003 through October 2003. According to the State Controller's Office, this will be considered a loan to the State and will be repaid to the City in 2006. Budget reductions are being considered to meet the City's operating requirements as a result of the VLF backfill gap. Staff is closely monitoring the Governor's proposed budget regarding this issue and the impact it may have on future revenues.

Electric Fund

Revenues are projected to remain the same over the next two fiscal years at \$53 million. The cost of bulk power has leveled off and the City does not anticipate any significant shifts in power costs at this time as it occurred in fiscal year 2002 when the City paid \$52 million for power versus \$32.6 million in 2004 and 2005.

Operating expenditures are up approximately \$2 million and are offset by existing rates and fund balance. The failed deregulation policies of the State and the run away cost of power in the spring of 2001 significantly impacted the Electric Fund, however, the "market cost adjustment" approved by the City Council in 2001 has corrected this imbalance. The Electric Fund is financially healthy at this time.

Wastewater Fund

Significant changes will occur in the Wastewater fund in the next two years. The State of California has imposed higher standards on the discharge of wastewater into the San Joaquin Delta. The City anticipates spending \$18 million as a first step in meeting the State's discharge requirements. Accordingly, rate increases of approximately 20% per year through fiscal year 2006 were projected.

Water Fund

Revenues are projected to remain flat over the next two years with average annual revenues being \$6.3 million, which is up from the \$5.5 million in fiscal year 2002-03. Operating and capital expenditures are increasing to an average of \$6.5 million over the next two years due in part to the Council direction to replace and upgrade water and wastewater lines in the older sections of the City and for legal expenses associated with PCE/TCE litigation.

Capital projects to replace older and inadequate infrastructure may be debt financed to spread the cost of replacement over a longer period of time. City staff anticipates bringing rate increases back to the City Council in the next two fiscal years. Based on current projections, the fund balance is projected to decrease from \$2.5 million to \$350 thousand by the end of fiscal year 2004-05.

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Accounting Division of the Finance Department of the City of Lodi at 212 W. Pine Street, Lodi, California, 95240.

BASIC FINANCIAL STATEMENTS

The Government-wide Financial Statements provide a broad overview of the City's financial position and operating results. Information is grouped by governmental activities or business-type activities.

The Fund Financial Statements report information about the City's Governmental Funds, Proprietary Funds, and the Fiduciary Fund.

The notes have an integral role in disclosing information essential to the fair presentation of the Basic Financial Statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LODI
STATEMENT OF NET ASSETS
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 12,439,114	1,833,659	\$ 14,272,773
Restricted assets	6,560,245	18,656,199	25,216,444
Accounts receivable, net	3,544,389	8,938,975	12,483,364
Property tax receivable	1,208,990		1,208,990
Interest receivable	49,384	4,940,227	4,989,611
Internal balances	(3,513,243)	3,513,243	
Due from other governmental agencies	2,487,740	367,590	2,855,330
Advance receivables	1,084,000	531,786	1,615,786
Inventory	117,541	1,571,942	1,689,483
Other assets	275,268	11,064	286,332
Deferred charges		40,530,663	40,530,663
Capital assets, net:			
Nondepreciable	36,262,855	15,433,432	51,696,287
Depreciable, net	81,072,136	83,667,729	164,739,865
TOTAL ASSETS	141,588,419	179,996,509	321,584,928
LIABILITIES			
Accounts payable and accrued liabilities	2,916,843	3,428,065	6,344,908
Accrued salaries and wages	740,106		740,106
Accrued interest	298,430	8,392,538	8,690,968
Deferred revenue		1,184,466	1,184,466
Long-term liabilities:			
Due within one year	4,248,204	5,367,212	9,615,416
Due in more than one year	33,227,170	108,902,413	142,129,583
TOTAL LIABILITIES	41,430,753	127,274,694	168,705,447
NET ASSETS			
Invested in capital assets, net of related debt	94,680,680	62,751,969	157,432,649
Restricted for:			
Capital projects	10,960,863		10,960,863
Debt service	1,454,722	84,769	1,539,491
Other purposes	394,951	154,585	549,536
Unrestricted (deficit)	(7,333,550)	(10,269,508)	(17,603,058)
TOTAL NET ASSETS	\$ 100,157,666	\$ 52,721,815	\$ 152,879,481

The notes to the financial statements are an integral part of this statement.

CITY OF LODI
STATEMENT OF ACTIVITIES
Year ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 12,237,616	2,354,490	110,038	975,549	(8,797,539)		\$ (8,797,539)
Public protection	16,631,944	540,720	754,912	802,354	(14,533,958)		(14,533,958)
Public works	10,946,025	335,175	2,080,841	3,908,269	(4,621,740)		(4,621,740)
Library	1,453,769	56,619	163,227	25,000	(1,208,923)		(1,208,923)
Parks & Recreation	3,989,438	586,474	206,470	1,103,140	(2,093,354)		(2,093,354)
Interest on long-term debt	1,214,565				(1,214,565)		(1,214,565)
Total governmental activities	46,473,357	3,873,478	3,315,488	6,814,312	(32,470,079)		(32,470,079)
Business-type activities:							
Electric	51,387,848	48,872,488		884,792		(1,630,568)	(1,630,568)
Wastewater	6,141,172	6,760,379	44,467	1,344,824		2,008,498	2,008,498
Water	12,879,363	5,531,573	500	1,465,342		(5,881,948)	(5,881,948)
Transit	5,388,541	293,046	1,727,102	2,870,990		(497,403)	(497,403)
Total business-type activities	75,796,924	61,457,486	1,772,069	6,565,948		(6,001,421)	(6,001,421)
Total primary government	\$ 122,270,281	65,330,964	5,087,557	13,380,260	(32,470,079)	(6,001,421)	\$ (38,471,500)
General revenues:							
Taxes:							
Property taxes					6,398,164		6,398,164
Franchise taxes					7,624,550		7,624,550
Business license tax					821,859		821,859
Transient occupancy tax					399,759		399,759
Grants and contributions not restricted to specific programs							
Motor vehicle-in lieu					8,639,582		8,639,582
Investment earnings					3,429,824		3,429,824
Other					268,843	6,456,761	6,725,604
Special item-litigation settlement					136,745	1,594,335	1,731,080
Transfers					2,727,811	2,727,811	2,727,811
Total general revenues, special items and transfers					2,980,631	(2,980,631)	
Change in net assets					30,699,957	7,798,276	38,498,233
Net assets, beginning of year					(1,770,122)	1,796,855	26,733
Net assets, end of year					101,927,788	50,924,960	152,852,748
					100,157,666	52,721,815	\$ 152,879,481

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

Governmental Fund Types

Governmental funds consist of the General Fund, special revenue funds, debt service fund and capital projects funds.

Major Governmental Funds include:

General Fund

This fund is maintained to account for all financial resources that are not restricted as to their use. This includes property and sales taxes, business tax, receipts, franchise taxes and various subventions such as Motor Vehicle In-Lieu fees received from the State of California. With the exception of grant programs, General Fund resources can be utilized for any legitimate governmental purpose.

Capital Outlay Reserve Fund

This fund was established to account for the entire City's construction projects and capital purchases in excess of \$10,000 with the exception of those funded through Enterprise Funds. Financing is provided primarily by operating transfers from other funds and from State and Federal grants.

Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds.

Major Enterprise Funds include:

Electric Fund

The City established this fund in order to account for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements maintenance and debt service.

Wastewater Fund

This fund was established by the City in order to account for the provision of waste water collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

Water Fund

This fund was established by the City in order to account for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund, including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Nonmajor Enterprise Fund:

Transit Fund

This fund is used to account for the operations of the Dial-A-Ride and the Grapeline bus system.

Internal Service Fund

Internal Service Funds are maintained to account for the internal transfer of services between operating units of the City. The purpose of an Internal Service Fund is to achieve a level of operating efficiency that may not be available if the same activities were performed by multiple organizations.

Claims and Benefits Funds

The City of Lodi maintains an internal service fund to account for the following insurance and certain employee benefits:

General Liability	Employee assistance program
Workers' Compensation	Employee recognition program
Dental	Unemployment insurance
Chiropractic	Flexible spending program
Life/accidental insurance	Long Term Disability
Medical	Vision

Fiduciary Fund Type

Private-purpose Trust Fund

This fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way Beckman Districts and the Downtown and Cherokee Lane Districts.

**CITY OF LODI
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003**

	General Fund	Capital Outlay Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 356,687	9,040,921	2,280,392	\$ 11,678,000
Restricted assets		6,560,245		6,560,245
Receivables:				
Accounts	3,318,817		114,742	3,433,559
Property taxes	851,966	357,024		1,208,990
Interest		32,548	16,407	48,955
Due from other funds	229,120	763,291	1,927,747	2,920,158
Due from other governmental agencies	165,631	450,000	1,872,109	2,487,740
Advance receivables			1,084,000	1,084,000
Inventory	117,541			117,541
Other assets	33,929			33,929
Total assets	<u>\$ 5,073,691</u>	<u>17,204,029</u>	<u>7,295,397</u>	<u>\$ 29,573,117</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 1,421,461	904,390	590,992	\$ 2,916,843
Accrued salaries and wages	740,106			740,106
Due to other funds	1,345,416	3,675,884	1,412,101	6,433,401
Deferred revenue		450,000	1,084,000	1,534,000
Total liabilities	<u>3,506,983</u>	<u>5,030,274</u>	<u>3,087,093</u>	<u>11,624,350</u>
Fund balances :				
Reserved	927,056	5,224,919	1,180,282	7,332,257
Unreserved reported in:				
General Fund	639,652			639,652
Special revenue funds			2,322,087	2,322,087
Capital projects funds		6,948,836	705,935	7,654,771
Total fund balances	<u>1,566,708</u>	<u>12,173,755</u>	<u>4,208,304</u>	<u>17,948,767</u>
Total liabilities and fund balances	<u>\$ 5,073,691</u>	<u>17,204,029</u>	<u>7,295,397</u>	<u>\$ 29,573,117</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LODI
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2003

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 17,948,767
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Nondepreciable capital assets	36,262,855
Depreciable capital assets, net	81,072,136
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds as follows:	
Compensated absences	(6,723,389)
Bonds payable and other long-term debt	(27,461,404)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(298,430)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	1,534,000
Internal service funds are used by management to charge the costs of general liability insurance, workers' compensation insurance, health benefits insurance and other insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net assets.	(2,176,869)
Net assets of governmental activities	\$ <u>100,157,666</u>

CITY OF LODI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2003

	General Fund	Capital Outlay Reserve	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 21,451,941	1,857,432	790,560	\$ 24,099,933
Licenses and permits	1,669,402			1,669,402
Intergovernmental revenues	4,219,391	24,840	3,140,908	7,385,137
Charges for services	1,871,380	2,304,060	2,096,206	6,271,646
Fines, forfeits and penalties	803,095			803,095
Investment and rental income	221,390	518,580	91,563	831,533
Miscellaneous revenue	139,605	180,050	133,239	452,894
Total revenues	<u>30,376,204</u>	<u>4,884,962</u>	<u>6,252,474</u>	<u>41,513,640</u>
Expenditures:				
Current:				
General government	10,874,090			10,874,090
Public protection	15,334,086		263,314	15,597,400
Public works	6,130,955	39,494	755,033	6,925,482
Library	1,316,008			1,316,008
Parks and recreation	3,385,288			3,385,288
Capital outlay		9,241,294	3,701,058	12,942,352
Debt service:				
Interest and fiscal charges			1,220,040	1,220,040
Principal payments			730,000	730,000
Total expenditures	<u>37,040,427</u>	<u>9,280,788</u>	<u>6,669,445</u>	<u>52,990,660</u>
Excess of expenditures over revenues	<u>(6,664,223)</u>	<u>(4,395,826)</u>	<u>(416,971)</u>	<u>(11,477,020)</u>
Other financing sources (uses):				
Transfers in	6,747,325	1,606,180	2,855,010	11,208,515
Transfers out	(1,880,316)	(4,318,097)	(2,029,471)	(8,227,884)
Total other financing sources (uses)	<u>4,867,009</u>	<u>(2,711,917)</u>	<u>825,539</u>	<u>2,980,631</u>
Net change in fund balances	(1,797,214)	(7,107,743)	408,568	(8,496,389)
Fund balances, beginning of year, as restated	<u>3,363,922</u>	<u>19,281,498</u>	<u>3,799,736</u>	<u>26,445,156</u>
Fund balances, end of year	<u>\$ 1,566,708</u>	<u>12,173,755</u>	<u>4,208,304</u>	<u>\$ 17,948,767</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LODI
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
Year ended June 30, 2003

Amounts reported for governmental activities are different because:

Net change in fund balances - total governmental funds	\$	(8,496,389)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays, capital contributions and depreciation expense are as follows:

Capitalized capital outlays		12,942,352
Capital contributions		238,964
Depreciation expense		(6,316,626)

Long-term debt proceeds, net of discounts, provide current financial resources to governmental funds, but issuing debt proceeds increases long-term liabilities in the statement of net assets. Repayment of the principal and costs of issuance are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, and the costs of issuance increase deferred changes in the statement of net assets. Repayments of principal are as follows:

Capital leases		201,261
Certificates of participation principal		730,000
Loan principal		78,700

Internal service funds are used by management to charge the costs of certain activities, such as health benefits and self-insurance, to individual funds. The net revenue (expenses) of internal service funds is reported with governmental activities.

(623,929)

Deferred revenues recognized in the funds that were previously recognized in the statement of activities

(30,000)

Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.

Change in compensated absences		(499,930)
Change in accrued interest		5,475

Change in net assets of governmental activities	\$	<u>(1,770,122)</u>
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CITY OF LODI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
ASSETS						
Current assets:						
Cash and investments	\$ 771,588	769,770	292,301		\$ 1,833,659	\$ 781,114
Restricted assets	18,365,818	115	300,266		18,666,199	
Receivables:						
Accounts	5,530,535	628,674	2,723,966	55,800	8,938,975	110,830
Interest	4,929,298	7,902	3,027		4,940,227	429
Due from other funds	2,050,000	1,822,081	2,310,124		6,182,205	
Due from other governmental agencies		11,036		356,554	367,590	
Advance receivables	531,788				531,786	
Inventory	1,344,594	12,131	215,217		1,571,942	
Other assets	2,676	7,113	1,275		11,064	241,339
Total current assets	33,516,295	3,258,822	5,846,176	412,354	43,033,647	1,113,712
Noncurrent assets:						
Deferred charges and other assets	40,344,567	186,096			40,530,663	
Capital assets, net:						
Nondepreciable	8,101,969	5,160,180	382,356	1,788,927	15,433,432	
Depreciable, net	24,606,745	30,506,273	17,674,293	10,680,418	83,667,729	
Total capital assets	32,708,714	35,666,453	18,256,649	12,469,345	99,101,161	
Total noncurrent assets	73,053,281	35,852,549	18,256,649	12,469,345	139,631,824	
TOTAL ASSETS	106,569,576	39,111,371	24,102,825	12,881,699	182,865,471	1,113,712
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	1,079,970	239,871	1,664,931	443,293	3,428,065	
Accrued interest	399,088	319,500	21,554	9,727	749,869	
Due to other funds				2,668,962	2,668,962	
Deferred revenue		16,248	1,168,218		1,184,466	
Self-insurance liability						1,583,802
Accrued compensated absences	339,517	187,084	5,815	2,295	534,711	
Certificates of participation payable	4,528,947	160,525			4,689,472	
Water note payable			143,029		143,029	
Noncurrent liabilities:						
Accrued interest			7,642,669		7,642,669	
Self-insurance liability						1,706,779
Accrued compensated absences	700,793	516,040	4,516		1,221,349	
Certificates of participation payable	81,738,354	9,064,298	14,500,000		105,302,652	
Water note payable			2,378,412		2,378,412	
TOTAL LIABILITIES	88,786,689	10,503,566	27,529,144	3,124,277	129,943,656	3,290,581
NET ASSETS						
Invested in capital assets, net of related debt	8,105,786	26,441,630	15,735,208	12,469,345	62,751,969	
Restricted:						
Debt service	84,769				84,769	
Other purposes	154,585				154,585	
Unrestricted (deficit)	9,437,767	2,166,175	(19,161,527)	(2,711,923)	(10,269,508)	(2,176,869)
TOTAL NET ASSETS (DEFICIT)	\$ 17,782,907	28,607,805	(3,426,319)	9,757,422	\$ 52,721,815	\$ (2,176,869)

The notes to the financial statements are an integral part of this statement.

CITY OF LODI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2003

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
OPERATING REVENUES						
Charges for services	\$ 48,872,488	6,760,379	5,531,573	293,048	\$ 61,457,486	\$ 5,811,216
OPERATING EXPENSES						
Personnel services	4,105,705	2,091,217	1,090,361	80,211	7,367,494	317,752
Supplies, materials and services	7,341,842	1,825,041	6,524,709	4,663,544	20,355,136	4,200,020
Utilities	31,291,640	463,856	691,248	105,088	32,551,832	
Claims						2,141,383
Depreciation and amortization	5,812,779	1,122,058	701,343	539,698	8,175,878	
TOTAL OPERATING EXPENSES	48,551,966	5,502,172	9,007,661	5,388,541	68,450,340	6,659,155
OPERATING INCOME (LOSS)	320,522	1,258,207	(3,476,088)	(5,095,495)	(6,992,854)	(847,939)
NONOPERATING REVENUES (EXPENSES)						
Investment income	6,431,645	64,042	4,159	(43,085)	6,456,761	6,507
Interest expense	(2,835,882)	(639,000)	(3,871,703)		(7,346,585)	
Rent	6,000	237,749	8,722		252,471	
Other revenues	537,346	365,654	427,754	1,783,180	3,113,934	217,503
TOTAL NONOPERATING REVENUES (EXPENSES)	4,139,109	28,445	(3,431,068)	1,740,095	2,476,581	224,010
INCOME (LOSS) BEFORE SPECIAL ITEM, CAPITAL CONTRIBUTIONS AND TRANSFERS	4,459,631	1,286,652	(6,907,156)	(3,355,400)	(4,516,273)	(623,929)
Special item-litigation settlement			2,727,811		2,727,811	
Capital contributions	884,792	1,344,824	1,465,342	2,670,890	6,565,948	
Transfers in		38,820	40,615	498,452	577,887	
Transfers out	(1,883,571)	(619,355)	(699,780)	(355,812)	(3,558,518)	
Net Operating Transfers in (out)	(998,779)	764,289	3,533,988	3,013,630	6,313,128	
Change in net assets	3,460,852	2,050,941	(3,373,168)	(341,770)	1,796,855	(623,929)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR, as restated	14,322,055	26,556,864	(53,151)	10,098,192	50,924,960	(1,552,940)
NET ASSETS (DEFICIT) - END OF YEAR	\$ 17,782,907	28,607,805	(3,426,319)	9,757,422	\$ 52,721,815	\$ (2,176,869)

The notes to the financial statements are an integral part of this report.

CITY OF LODI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2003

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
Cash flows from operating activities:						
Receipts from customers and users	\$ 42,683,838	6,712,512	3,174,200	1,889,241	\$ 54,259,789	\$ 6,028,719
Receipts from interfund services provided	275,736				275,736	
Cash paid to suppliers for goods & services	(39,202,675)	(1,558,725)	(1,934,143)	(3,512,213)	(47,156,638)	(6,257,629)
Payments to employees	(3,998,887)	(1,914,443)	(1,089,605)	(77,918)	(7,080,851)	(317,752)
Payments for interfund services provided	(1,338)	(439,817)	(863,935)	(32,175)	(1,137,265)	
Net cash provided by (used in) operating activities	(243,326)	2,799,527	(513,483)	(1,933,063)	109,655	(224,370)
Cash flows from noncapital financing activities:						
Special item-litigation settlement			2,727,811		2,727,811	
Transfers in		38,820	40,615	498,452	577,887	
Transfers out	(1,883,571)	(619,355)	(899,780)	(355,812)	(3,558,518)	
Net cash provided by (used in) noncapital financing activities	(1,883,571)	(580,535)	2,068,646	142,640	(252,820)	
Cash flows from capital and related financing activities:						
Proceeds from Certificates of Participation	44,588,548		3,000,000		47,588,548	
Payment to Calpine for energy purchase contract amendment	(42,406,175)				(42,406,175)	
Issuance costs - Certificates of Participation	(1,436,967)				(1,436,967)	
Acquisition and construction of capital assets	(3,858,406)	(1,041,145)	(846,167)		(5,745,738)	
Fees received from developers		89,132	446,739		535,871	
Capital grants received				1,833,508	1,833,508	
Principal payments on debt	(4,575,000)	(160,000)	(138,440)		(4,873,440)	
Interest payments on debt	(2,835,882)	(639,000)	(3,871,703)		(7,346,585)	
Net cash used in capital and related financing activities	(10,523,882)	(1,751,013)	(1,409,591)	1,833,508	(11,850,978)	
Cash flows from investing activities:						
Rent of City property	6,000	237,749	8,722		252,471	
Proceeds from sales and maturities of investments	4,561,547				4,561,547	
Interest on investments	8,431,645	64,042	4,159	(43,085)	8,456,761	6,507
Net cash provided by (used in) investing activities	10,999,192	301,791	12,881	(43,085)	11,270,779	6,507
Net increase (decrease) in cash and cash equivalents	(1,651,587)	769,770	158,453		(723,364)	(217,863)
Cash and cash equivalents at beginning of year	2,423,175		133,848		2,557,023	978,977
Cash and cash equivalents at end of year	\$ 771,588	\$ 769,770	\$ 292,301		\$ 1,833,659	\$ 761,114
Cash flows from operating activities:						
Operating income (loss)	\$ 320,522	1,258,207	(3,476,088)	(5,095,495)	\$ (6,992,854)	\$ (847,939)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	5,812,779	1,122,058	701,343	539,698	8,175,878	
Other revenues	537,346	365,654	427,754	1,783,180	3,113,934	217,503
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(1,403,841)	130,633	(2,408,233)	(30,619)	(3,712,060)	75,081
Decrease in advance receivables	161,101				161,101	
Decrease (increase) in restricted deposit		472	(300,002)		(299,530)	
(Increase) decrease in interest receivables	(4,906,490)	6,519	2,922		(4,897,049)	8,493
Increase in due from other funds	(300,000)	(387,718)	(382,095)	(356,554)	(1,426,367)	
Decrease (increase) in inventory	430,922	1,064	(24,038)		407,948	
Decrease (increase) in other assets	187	(1,900)	2,280	188	755	(235,089)
(Decrease) increase in accounts payable and other liabilities	(882,653)	132,724	859,753	285,780	395,604	
(Decrease) increase in accrued interest	(120,017)	(4,960)	3,782,165	(10,419)	3,646,769	
Increase in due to other funds				948,883	948,883	
Increase in compensated absences	106,818	176,774	756	2,295	286,643	
Increase in deferred revenue			300,000		300,000	
Increase in self-insurance liability						557,581
Net cash provided by (used in) operating activities	\$ (243,326)	2,799,527	(513,483)	(1,933,063)	\$ 109,655	\$ (224,370)
Noncash Investing, Capital and Financing Activities						
Capital contributions	\$ 884,792	1,255,692	1,018,603	1,037,482	\$ 4,196,569	\$

The notes to the financial statements are an integral part of this statement.

CITY OF LODI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	Private-Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Investments	\$ 544,624	\$ 366,733
Receivables:		
Special assessments		40,463
Interest		1,256
TOTAL ASSETS	<u>544,624</u>	<u>408,452</u>
LIABILITIES		
Accounts payable and other liabilities		408,452
TOTAL LIABILITIES		<u>408,452</u>
NET ASSETS	<u>\$ 544,624</u>	<u>\$</u>

CITY OF LODI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2003

	Private-Purpose Trust Funds
ADDITIONS	
Investment and rental income	\$ 6
Total additions	<u>6</u>
DEDUCTIONS	
Current	
Library	64,749
Total deductions	<u>64,749</u>
CHANGE IN NET ASSETS	(64,743)
NET ASSETS, BEGINNING OF YEAR	609,367
NET ASSETS, END OF YEAR	\$ <u><u>544,624</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LODI
Notes to Basic Financial Statements
June 30, 2003

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) THE FINANCIAL REPORTING ENTITY

The City of Lodi (City) was incorporated on December 6, 1906, as a municipal corporation under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public works, public protection (police and fire), public utilities, library, parks and recreation.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles.

An elected five-member council governs the City of Lodi. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units, although legally separate entities, are, in substance, part of the City's operations and therefore, their activities are blended with data of the City.

Blended Component Units

The blended component units of the City are as follows:

The Lodi Public Improvement Corporation (LPIC) was formed on April 26, 1988, for the purpose of rendering financial assistance to the City in the issuance of the 1988 Certificates of Participation (refunded by the issuance of the 1991 Certificates of Participation) to finance the expansion of the City's White Slough Pollution Control Facility, the 1995 and 1996 Certificates of Participation to finance the Central City Revitalization Projects and the Performing Arts/ Conference Center, (refunded by the issuance of the 2002 Certificates of Participation) and the recent issuance of the 1999 Certificates of Participation to finance the Electric Systems improvements (refunded by the 2002 Certificates of Participation Series A). The City Council constitutes the Board of Directors of LPIC. The funds of LPIC have been included in the Enterprise (Electric and Wastewater) Funds and in the Capital Outlay Reserve Fund in the accompanying basic financial statements.

The Lodi Financing Corporation (LFC) was formed on October 12, 1999, for the purpose of assisting the City with the financing of the costs of its environmental abatement program and enhancing the water supply of the City for the use, benefit and enjoyment of the citizens served by the City.

On June 29, 2000, the Lodi Financing Corporation was authorized to issue Variable rate Certificates of Participation quarterly on each January 1, April 1, July 1 and October 1, beginning October 2000; provided however, that the aggregate principal amount shall not exceed Sixteen Million Dollars (\$16,000,000). Total bonds issued as of June 30, 2003, were \$14,500,000. These issues were intended to fund the continued commitment of the City as the lead agency in initiating and prosecuting environmental enforcement actions to compel responsible parties to investigate and clean up all actual or potential dangers to public health and the environment arising from or related to hazardous substance

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

contamination of portions of the City's groundwater and soil located within an area approximately 600 acres and encompassing the City's central business area. The City Council is the Board of Directors of LFC. The funds of LFC are included in the Water Fund in the accompanying basic financial statements.

(b) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus and accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal year. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Property taxes, other local taxes, licenses, intergovernmental revenues, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are considered to be measurable and available when the City receives cash.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The **Capital Outlay Reserve Fund** accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The City reports the following major proprietary (enterprise) funds:

The **Electric Fund** accounts for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements, and maintenance and debt service.

The **Wastewater Fund** accounts for the provision of wastewater collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

The **Water Fund** accounts for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund, including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Additionally, the City reports the following fund types:

The **Internal Service Fund** accounts for the City's Claims and Benefits.

The **fiduciary funds** account for assets held in trust for other agencies.

Private-purpose trust fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Agency fund accounts for assets held by the City as a trustee or as an agent for individuals, private organizations, related organizations and/or other governmental units.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City departments from the Electric, Wastewater, Water and Transit Funds. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the statement of activities.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service fund are charges for customer services including: electric, wastewater, water and public transportation fees. Operating expenses for enterprise funds and internal service fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

(d) Implementation of New Accounting Principles

- **Governmental Accounting Standards Board Statement No. 34**

The City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the City records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of the state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis – GASB Statement No. 34 require that financial statements be accompanied by a narrative introduction and analytical overview of the City's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the City's activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets – The statement of net assets is designed to display the financial position of the primary government (government and business-type activities). The City now reports all capital assets in the government-wide statement of net assets and reports depreciation expense- the cost of "using up" capital assets – in the statement of activities. The net assets of the City are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenue generated directly by function.

Accordingly, the City has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

- **Governmental Accounting Standards Board Statement No. 37**

The City adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. This statement amends GASB No. 34 to either 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the City considered the effects of this statement when adopting the provisions of GASB No. 34 as previously described.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

- **Governmental Accounting Standards Board Statement No. 38**

The City adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB No. 38.

- **Governmental Accounting Standards Board Interpretation No. 6**

The City adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. This interpretation impacts the fund level financial statements (governmental funds only, not proprietary or fiduciary funds) required by GASB Statement No. 34 but has no direct impact on the government-wide financial statements. Accordingly, the City has not recognized the current portion of certain long-term liabilities and related expenditures in the governmental fund financial statements for amounts not considered to be due and payable as of June 30, 2003, and has restated fund balances as of July 1, 2002 to reflect the cumulative effect of the change as of that date.

- **Governmental Accounting Standards Board Technical Bulletin No. 2003-1**

The City adopted the provisions of GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. This Technical Bulletin supersedes Technical Bulletin 94-1 and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities. This Technical Bulletin applies to derivatives that are not reported at fair value on the statement of net assets. It provides an updated definition of derivatives; it also provides disclosure requirements for the government's objective for entering into the derivative and the derivative's terms, fair value, and risk exposures. These disclosure requirements are intended to provide information to financial statement users that will enhance their understanding of the significance of derivatives to a government's net assets and will assist them in assessing the amounts, timing, and uncertainty of future cash flows.

(e) Cash and Investments

The City maintains a cash and investment pool that is available for all funds of the City for the purpose of increasing interest earnings through investment activities. Investments are generally stated at fair value. Income earned or losses arising from the investment of pooled cash are allocated to various funds based on month-end cash balances in accordance with California code section 53647. Changes in fair value of investments are recognized as a component of interest and investment income.

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(f) Restricted Assets

In the Enterprise (Electric) Fund, restricted assets represent the proceeds of the 1999 Certificates of Participation held by the trustee for the planned improvements of the city electric systems. In the Capital Outlay Reserve Fund, the restricted assets represent the proceeds of the 2002 Improvement bonds intended for the construction of the new police building. In the Water Fund, the restricted assets represent funds held by the Attorneys in connection with the PCE/TCE litigation.

(g) Property Taxes

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is lien based on the assessed value listed as of the prior January 1st for all real and personal property located in the City. Property sold after the assessment date (January 1st) is reassessed and the amount of property tax assessed is prorated. The assessed value at January 1, 2001, upon which the 2002 levy was based, was \$3,592,392,000.

Secured property taxes are levied on October 1 and are due in two installments on November 1 and February 1. The tax becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is levied on July 1, due on July 31 and becomes delinquent after August 31.

Property taxes levied for the year ended June 30, 2003, are recorded as receivables, net of estimated uncollectible amounts. Property taxes paid to the City by the County within 60 days of the fiscal year end are considered "available" and are, therefore, recognized as revenue.

In 1993, the City made an agreement with the San Joaquin County to participate in the Teeter Plan. The Teeter plan is an alternative method of apportioning property tax money. The cities receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

(h) Due From/Due To Other Funds and Internal Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds."

In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Receivables and payables between the governmental activities and the business-type activities are classified as internal balances.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(i) Transfers

In the fund financial statements, interfund transfers are recorded as transfers in (out) except for transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of fiscal year.

Reimbursements for expenditures, initially made by one fund that is properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as other revenue in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

(j) Long-term obligations

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Gain or losses occurring from advance refunding, are deferred and amortized into expense for both governmental and business-type activities.

(k) Advance Receivables

Advance receivables reported in the HOME Program & Community Development Block Grant Special Revenue Fund represent funds the City loaned to a developer for a low-income housing project. The City will receive principal and interest from the original loan in thirty years and can use it for allowable projects or to make new loans.

Advance receivables reported in the Enterprise Fund (Electric) represent the City's portion of the NCPA's General Operating reserve that is refundable on demand by the City. (See Note 13.)

(l) Inventory

General fund inventories are recorded at cost and are recognized as expenditures when consumed rather than when purchased. For the Proprietary fund types, inventories are recorded at cost using the weighted average cost method, which approximates market, and expense is recognized when inventories are consumed in operations.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(m) Deferred Charges

Deferred charges reported in the Electric Fund include costs incurred in connection with the issuance of the 2002 Certificates of Participation Series A & B amortized over 30 years. It also includes the buyout cost of the Calpine energy purchase contract amortized over 9.5 years. The deferred charges reported in the Wastewater Fund include costs incurred in the issuance of the 1991 Certificates of Participation amortized over 32.5 years.

(n) Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, infrastructure (e.g., streets, streetlights, traffic signals, sidewalks, and bridges), and electric lines, wastewater lines and storm drains are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with individual cost of \$3,000 or more and have an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the general, streets, capital outlay reserve, and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized.

As required by the Governmental Accounting Standards Board Statement No. 34, beginning July 1, 2002, the City has capitalized infrastructure, primarily its network of streets, as part of the capital assets shown in the governmental activities column on the government-wide statement of net assets. This capitalization included infrastructure that could be identified and has been acquired since July 1, 1980.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3 - 40
Machinery and equipment	2 - 40
Vehicles	5 - 15
Infrastructure	10 - 50

(o) Compensated Absences/Vacation and Sick Leave

Accumulated vacation and vested sick leave benefits are accrued when incurred in the government-wide financial statements and the proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(p) Self-Insurance

The City is self-insured for general liability, workers' compensation, dental benefits, unemployment and long-term disability. Various City funds are charged premiums for the City's self-insurance liability, which is accounted for as an internal service fund. The accrued liability for estimated self-insured claims represents an estimate of the eventual loss on claims arising prior to year-end including claims incurred but not reported.

(q) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(r) Statement of Cash Flows

A statement of cash flows is presented for proprietary fund types. For purposes of reporting cash flows, the City considers all highly liquid investments with maturities of three months or less when purchased and investments maintained in the pool to be cash equivalents.

(s) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(2) Cash and Investments and Restricted Cash with Fiscal Agent

The following is a detailed summary of cash and investments and restricted cash with fiscal agent at June 30, 2003:

Pooled cash and investments:	
Cash on hand	\$ 1,755
Demand deposits	1,400,692
Certificates of deposit	1,549,008
Investments	<u>11,948,746</u>
Total pooled cash and investments	14,900,201
Private Sector Fund:	
Shares of stocks	<u>283,929</u>
Total cash and investments	15,184,130

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Restricted cash with fiscal agent	25,216,444
Total cash and investments and restricted cash with fiscal agent	<u>\$ 40,400,574</u>
Presented in the government-wide statement of net assets	\$ 14,272,773
Presented in the statement of fiduciary net assets:	
Private-purpose trust funds	544,624
Agency Fund	<u>366,733</u>
Total cash and investments	15,184,130
Restricted assets	<u>25,216,444</u>
Total	<u>\$ 40,400,574</u>

(a) Cash

The City's demand deposits and certificates of deposit at year-end are covered by either federal depository insurance or by collateral held by the custodial bank. The collateral pool of the custodial bank is equal to 110% of the uninsured deposits.

(b) Investments

The City has adopted an investment policy pursuant to Government Code Section 53601 which authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, money market mutual funds and the State of California Local Agency Investment Fund (LAIF). The City is not authorized to enter into reverse repurchase agreements. The City selects its investments based on safety, liquidity and yield.

The value of the pool shares in the State of California Local Agency Investment Fund (LAIF), which maybe withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF on June 30, 2003 is \$55,422,506,109. LAIF is managed by the State Treasurer. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling \$304,000,000, and asset backed securities totaling \$985,676,000. The Local Investment Advisory Board (LAIB) has oversight responsibility for LAIF. The LAIB consists of five members as designated by State Statute. Information is not available on whether the mutual funds in which the City has invested, used, held or wrote derivative products during the fiscal year ended June 30, 2003.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(c) Restricted Cash with Fiscal Agent

This represents the balance of the 2002 Public Improvement Certificates of Participation held by US Bank and proceeds of the 1999 Electric Utility Certificates of Participation held by Bank of New York and funds held by the attorneys related to the PCE/TCE litigation.

(d) Custodial Credit Risk

In accordance with GASB 3, deposits and investments are classified as to custodial credit risk by three categories as follows:

Deposits:

Category 1

Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3

Uncollateralized. (Includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.)

At year-end, the City's carrying amount of deposits was \$2,949,700 and the bank balance was \$5,065,831. Of the bank balance, \$527,033 was covered by federal depository insurance or by collateral held by the City's agent in the City's name. The remaining balance of \$4,538,798 was collateralized with securities held by the pledging financial institution or by its trust department or agent in the City's name.

Investments:

Category 1

Insured or registered, or securities held by the City or its agent in the City's name;

Category 2

Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name;

Category 3

Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Investments and restricted cash with fiscal agent of the City as of June 30, 2003 are summarized below:

	<u>Category</u> <u>1</u>	<u>Not Subject</u> <u>to Categorization</u>	<u>Carrying</u> <u>Amount</u>
Pooled investments:			
State of California			
Local Agency Investment Fund (LAIF)		11,948,746	11,948,746
Total pooled investments		11,948,746	11,948,746
Investments held in trust:			
Shares of stocks	283,929		283,929
Restricted cash with fiscal agent, primarily			
Guaranteed Investment Certificates (GICs)		25,216,444	25,216,444
Total investments	\$ 283,929	37,165,190	\$ 37,449,119

(3) **ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Revenues of the General Fund, Electric, Wastewater and Water funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to late charges and services	\$ 10,200
Uncollectibles related to electric sales and services	169,200
Uncollectibles related to wastewater services	18,300
Uncollectibles related to water sales and services	22,600
 Total uncollectibles of the current fiscal year	 \$ <u>220,300</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(4) INTERFUND RECEIVABLES/PAYABLES

Interfund receivables and payables are as follows at June 30, 2003:

Receivable Fund	Payable Fund	Amount
General	Capital Outlay Reserve	\$ 229,120
Capital Outlay Reserve	Other governmental	763,291
Other governmental	Other governmental	582,331
Other governmental	General	1,345,416
Electric	Capital Outlay Reserve	2,050,000
Wastewater	Nonmajor fund - Transit	1,779,307
Wastewater	Other governmental	42,774
Water	Nonmajor fund - Transit	889,655
Water	Capital Outlay Reserve	1,396,764
Water	Other governmental	23,705
		<u>\$ 9,102,363</u>

"Due to" and "due from" balances are recorded primarily when funds overdraw their share of pooled cash or when there are short-term loans between funds. The \$582,331 and the \$1,345,416 represent cash deficits in the governmental funds. The \$1,779,307 and the \$889,655 represent the cash deficit in the Transit Fund. The \$229,120 from the General Fund to the Capital Outlay Reserve Fund is a loan for the start up costs of a redevelopment agency. The \$763,291 from the Capital Outlay Reserve to the Other governmental is a loan primarily for capital street expansion. The \$2,050,000 from the Electric Fund to the Capital Outlay Reserve Fund represents loan for capital improvements. The \$1,396,764 in the Water Fund is primarily the loan incurred for the construction of Fire Station #4.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(5) TRANSFERS

Transfers for the year ended June 30, 2003, are summarized as follows:

<u>Transfers out:</u>	<u>Transfers in</u>						<u>Total</u>
	<u>General</u>	<u>Capital Outlay Reserve</u>	<u>Other Governmental</u>	<u>Sewer</u>	<u>Water</u>	<u>Transit</u>	
General	\$	1,601,880	215,079			63,357	\$ 1,880,316
Capital outlay reserve	1,716,765		2,601,332				4,318,097
Other governmental	1,565,777		28,599			435,095	2,029,471
Electric	1,789,836	4,300	10,000	38,820	40,615		1,883,571
Wastewater	619,355						619,355
Water	699,780						699,780
Transit	355,812						355,812
Total	\$ 6,747,325	1,606,180	2,855,010	38,820	40,615	498,452	\$ 11,786,702

During the year, various interfund transfers were made to finance expenditures, subsidize operating losses and service debt. The \$1,880,316 General Fund transfers out includes transfers of \$1,500,000 to the Capital Outlay Reserve Fund for the construction of the new police building and \$101,880 for capital improvements. The transfer of \$215,079 to Other governmental funds includes transfer of \$150,000 to the Library Fund for the integrated computer systems connection with the County and \$19,000 capital improvements to the Library Community Room.

The \$4,318,097 Capital Outlay Reserve transfers out includes transfers of \$1,460,147 to the General Fund from impact fees for administration costs from the inception of the impact fee program, \$123,312 for the lease of the new fire truck, \$127,200 for professional services; transfer of \$1,950,040 to the Debt Service Fund for the principal, interest and fiscal charges required to service the 2002 Certificates of Participation; transfer of \$150,000 to Lodi Lake Fund and \$500,000 to the Vehicle and Equipment Fund.

The \$1,565,777 transfers out from Other governmental to the General Fund represents the transfer of Gas tax revenues to fund the Public Works Street Maintenance Division. The \$435,095 transfer to the Transit Fund is primarily the transfer from Transportation Development Act funds to support transit needs.

The \$1,883,571 transfer out from the Electric Fund is primarily to reimburse the General Fund for administrative cost of services. Transfers of \$619,355 from Wastewater, the \$699,780 from Water and the \$355,812 from Transit represent primarily the cost of services reimbursement to the General Fund.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(6) CAPITAL ASSETS

Capital assets activity of the primary government for the year-ended June 30, 2003, was as follows:

<u>Governmental activities</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 22,425,347	1,374,385		\$ 23,799,732
Work of art		62,024		62,024
Construction in progress	17,412,056	9,808,704	(14,819,661)	12,401,099
Total capital assets, not being depreciated	39,837,403	11,245,113	(14,819,661)	36,262,855
Capital assets, being depreciated:				
Buildings and improvements	37,777,404	3,224,623		41,002,027
Machinery and equipment	6,946,561	549,440	(383,600)	7,112,401
Vehicles	6,975,156	733,632		7,708,788
Infrastructure	62,159,674	12,631,769		74,791,443
Total capital assets, being depreciated	113,858,795	17,139,464	(383,600)	130,614,659
Less accumulated depreciation for:				
Buildings and improvements	12,084,087	1,047,404		13,131,491
Machinery and equipment	4,490,007	609,612		5,099,619
Vehicles	4,555,717	1,032,388		5,588,105
Infrastructure	22,096,086	3,627,222		25,723,308
Total accumulated depreciation	43,225,897	6,316,626		49,542,523
Total capital assets, being depreciated, net	70,632,897	10,822,839	(383,600)	81,072,136
Governmental activities capital assets, net	\$ 110,470,301	22,067,951	(15,203,261)	\$ 117,334,991

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

<u>Business-type activities</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 5,306,754			\$ 5,306,754
Construction in progress	9,530,172	3,927,360	(3,330,854)	10,126,678
Total capital assets, not being depreciated	14,836,926	3,927,360	(3,330,854)	15,433,432
Capital assets, being depreciated:				
Buildings and improvements	32,119,789	353,664		32,473,453
Machinery and equipment	72,798,384	8,190,639		80,989,023
Vehicles	5,804,026	801,498		6,605,524
Total capital assets, being depreciated	110,722,199	9,345,801		120,068,000
Less accumulated depreciation for:				
Buildings and improvements	6,114,833	807,916		6,922,749
Machinery and equipment	23,833,405	1,900,895		25,734,300
Vehicles	3,238,991	504,231		3,743,222
Total accumulated depreciation	33,187,229	3,213,042		36,400,271
Total capital assets, being depreciated, net	77,534,970	6,132,759		83,667,729
Business-type activities capital assets, net	\$ 92,371,896	10,060,119	(3,330,854)	\$ 99,101,161

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities:	
General government	\$ 725,767
Public protection	1,188,747
Public works	3,784,068
Library	10,537
Parks and recreation	607,507
Total depreciation expense - governmental activities	\$ 6,316,626

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Business-type activities:

Electric	\$ 872,689
Wastewater	1,099,312
Water	701,343
Transit	<u>539,698</u>

Total depreciation expense - business-type activities	<u>\$ 3,213,042</u>
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(7) Operating Leases

The City is obligated under various operating leases for the use of buildings and office space. Total costs for such leases were \$96,679 for the year ended June 30, 2003.

Future minimum lease payments required by lease agreements that have initial or remaining noncancellable lease terms of one year or more as of June 30, 2003, are as follows:

Fiscal Years Ending

2004	\$ 20,000
2005	20,000
2006	<u>20,000</u>

Total minimum lease payments required under operating leases	<u>\$ 60,000</u>
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(8) Long-Term Obligations

The following is a summary of debt transactions of the City for the year ended June 30, 2003:

	Interest Rates	June 30, 2002	Additions	Reductions	June 30, 2003	Amounts Due Within One Year
Governmental activities:						
Compensated absences		\$ 6,223,459	1,910,365	(1,410,435)	\$ 6,723,389	\$ 1,910,365
2002 Certificates of Participation	3.0-5.0%	26,745,000		(730,000)	26,015,000	485,000
Note payable	5.0%	245,000			245,000	

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Loan payable	4.0%	621,600	(78,700)	542,900	81,848
Capital leases	5.3-5.39%	859,765	(201,261)	658,504	187,189
Self-insurance liability		<u>2,733,000</u>	<u>2,141,383</u>	<u>(1,583,802)</u>	<u>1,583,802</u>
Governmental activity long-term liabilities		<u>\$ 37,427,824</u>	<u>4,051,748</u>	<u>(4,004,198)</u>	<u>\$ 37,475,374</u>
				<u>\$ 37,475,374</u>	<u>\$ 4,248,204</u>
Business-type activities:					
Compensated absences		<u>\$ 1,469,417</u>	<u>534,711</u>	<u>(248,068)</u>	<u>\$ 1,756,060</u>
				<u>\$ 1,756,060</u>	<u>\$ 534,711</u>
California Safe Drinking Water Note Payable	3.41%	<u>2,659,881</u>	<u>(138,440)</u>	<u>2,521,441</u>	<u>143,029</u>
Certificates of Participation:					
1991 Certificates of Participation	4.5-6.6%	<u>9,725,000</u>	<u>(160,000)</u>	<u>9,565,000</u>	<u>175,000</u>
Less deferred amounts:					
For issuance discounts		<u>(354,652)</u>	<u>14,475</u>	<u>(340,177)</u>	<u>(14,475)</u>
Net		<u>9,370,348</u>	<u>(145,525)</u>	<u>9,224,823</u>	<u>160,525</u>
2000 Environmental Abatement Certificates of Participation --variable		<u>11,500,000</u>	<u>3,000,000</u>	<u>14,500,000</u>	
2002 Certificates of Participation A & B	Variable	<u>54,060,000</u>	<u>(3,600,000)</u>	<u>50,460,000</u>	<u>2,600,000</u>
Less deferred amounts:					
From refunding		<u>(8,027,296)</u>	<u>286,687</u>	<u>(7,740,609)</u>	<u>(286,689)</u>
Net		<u>46,032,704</u>	<u>(3,313,313)</u>	<u>42,719,391</u>	<u>2,313,311</u>
2002 Certificates of Participation C & D	1.54-5.25%		<u>43,965,000</u>	<u>(975,000)</u>	<u>42,990,000</u>
Add deferred amounts:					
For issuance premium			<u>623,548</u>	<u>(65,638)</u>	<u>557,910</u>
Total			<u>44,588,548</u>	<u>(1,040,638)</u>	<u>43,547,910</u>
Total Certificates of Participation		<u>66,903,052</u>	<u>47,588,548</u>	<u>(4,499,476)</u>	<u>109,992,124</u>
Business-type activity long-term liabilities		<u>\$ 71,032,350</u>	<u>48,123,259</u>	<u>(4,885,984)</u>	<u>\$ 114,269,625</u>
				<u>\$ 114,269,625</u>	<u>\$ 5,367,212</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$ 3,290,581 of internal service funds self-insurance liability was included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

Long-term debt payable at June 30, 2003, comprised the following individual issues:

California Safe Drinking Water Note Payable

The City entered into a contract on October 16, 1991, with the State of California Department of Water Resources to assist the City in financing the construction of water wells enabling the City to meet safe drinking water standards established by the State. The original amount of the note was \$3,129,827.51 and is secured by the project and a pledge of user fees collected by the Water Enterprise Fund. Semiannual payments of \$114,006, are payable each October 1 and April 1 through 2016.

Annual debt service requirements to maturity of water note payable are as follows:

Fiscal Year Ending June 30,	Business-type Activities	
	Principal	Interest
2004	\$ 143,029	\$ 84,948
2005	148,287	79,690
2006	153,220	74,758
2007	158,488	69,488
2008	163,810	64,166
2009-2013	908,353	231,533
2014-2017	846,254	66,277
Total	\$ <u>2,521,441</u>	\$ <u>670,860</u>

Note Payable

The City issued \$245,000 promissory note to James E. Dean and Carol Dean, as trustees of the James E. Dean Family Trust, for the purchase of 307 W. Elm Street property, which is the site of the new Public Safety Building. Interest is payable quarterly and principal is due on April 1, 2007.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Annual debt service requirements to maturity of note payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2004	\$	\$ 12,250
2005		12,250
2006		12,250
2007	245,000	9,188
Total	\$ 245,000	\$ 45,938

Loan Payable

The City entered into an agreement and issued a promissory note to San Joaquin County Council of Governments, a joint powers agency acting as the San Joaquin County Transportation Authority, in the amount of \$840,000 on February 5, 1999 for the purpose of funding the Kettleman Lane/SR 99 Interchange project. The balance remaining as of June 30, 2003, is \$542,900. Interest and principal is due and payable annually and matures on July 1, 2009.

Annual debt service requirements to maturity of loan payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2004	\$ 81,848	\$ 21,716
2005	85,122	18,442
2006	88,527	15,037
2007	92,068	11,496
2008	95,751	7,813
2009	99,584	3,983
Total	\$ 542,900	\$ 78,487

Certificates of Participation

\$11,170,000 Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) were sold in December 1991 for the repayment of the 1988 Wastewater Treatment Plant Expansion Project at a lower interest rate with approximately \$1,400,000 of additional proceeds. Principal is payable annually on August 1 in amounts from \$100,000 to \$760,000 with final payment due August 1, 2026.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

\$26,745,000 Certificates of Participation (2002 COP) were issued in January 2002 to provide funds to finance the costs of constructing, furnishing and equipping a new police building and jail for the City; to finance portions of certain other projects and to refund the outstanding 1995 and 1996 Certificates of Participation. The 1995 Certificates of Participation (1995 COP) were sold in October 1995 to finance the City Downtown Revitalization and the Cherokee Lane Beautification projects. The 1996 Certificates of Participation (1996 COP) were sold in August 1996 to finance the construction of the Hutchins Street Square Conference and Performing Arts Center. Principal is payable annually on October 1 in amounts from \$730,000 to \$1,600,000 with final payment due October 1, 2031.

\$46,760,000 2002 Variable Rate Demand Series A and **\$8,400,000** 2002 Taxable Series B Electric System Revenue Certificates of Participation were sold in January 2002. The proceeds of the 2002A Certificates of Participation were used to advance refund the 1999 Electric System Certificates of Participation Series A and the 1999 Series B Capital Appreciation certificates. The 1999 Series A and Series B Revenue Certificates of Participation were sold on August 18, 1999, to provide funds to finance the costs of certain improvements to the distribution and transmission facilities of the City's Electric System. As of June 30, 2003, the outstanding balance of the advanced refunded certificates is \$43,957,682. The proceeds of the 2002B Certificates were deposited in the Rate Stabilization Fund and applied to certain power purchase costs of the City. Principal for Series A is payable annually beginning 2011 to 2032 in amounts ranging from \$1,175,000 to \$ 3,460,000. Series B is payable annually beginning 2002 to 2006 in amounts ranging from \$1,100,000 to \$3,600,000.

The interest rate on the 2002A Certificates is determined based on the "Weekly Rate Index" for weekly interest rate periods. "Weekly Rate Index " is defined as The Bond Market Association Municipal Index as of the most recent date for which such index is published.

\$14,500,000 Variable rate Certificates of Participation were issued for the Environmental Abatement Program of which \$3.0 million were issued during the 2003 fiscal year. Interest on the Certificates accrue at a variable rate determined by a per annum interest rate equal to the three-month LIBOR RATE (London InterBank Offered Rate) plus 20 percentage points, but in no event shall the variable rate exceed 30 percent per annum. There is no set repayment schedule for both principal and interest for this issue; therefore this issue has not been included in the debt service schedule on page 53.

\$21,225,000 Revenue Certificates of Participation 2002 Series C and **\$22,740,000** Revenue Certificates of Participation Series D were issued to buy out the energy purchase agreement with Calpine.

In February 2001, the City entered into an energy purchase agreement (the Original Agreement) with Calpine Energy Services L.P. (Calpine) to purchase 25 MW of energy at \$65/mwh for a ten-year period beginning January 1, 2002. Since the execution of the Original Agreement, actions of the State in connection with the energy market conditions, including the initiation of conservation programs, and other factors, have resulted in lower electric load requirements and reduced energy costs throughout the State. As a result, the City's need for the energy purchased under the Original Agreement to serve its load has been reduced. The Original Agreement was amended on September 4, 2002, and was divided into three parts. The City sold its interests in the energy purchased under the Original Agreement to Calpine and nets the payments due from the City with respect to its purchase of such energy against the payments due from Calpine with respect to its purchase of the City's rights to such energy. On November 21, 2002, the City issued \$21,225,000 Revenue Certificates of Participation 2002 Series C and \$22,740,000 Revenue Certificates of Participation 2002 Taxable Series D to buy out the amended contract in the amount of \$42,406,175.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

The various indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts and minimum revenue bond coverage. The City is in compliance with all such significant limitations and restrictions.

Interest Rate Swaps

1999 \$42 Million Forward Basis Swap

Objective:

As a means to lower its borrowing costs, the City executed a forward floating-to-floating ("Basis") swap in connection with its existing \$42,000,000 Electric System Certificates of Participation, 1999 Series A and B. The intention of the swap was to provide protection against rising short-term interest rates since the City's net payment increases as rates rise.

Terms:

Under the swap, the City pays Salomon Smith Barney a variable payment computed as The Bond Market Association Municipal Swap Index TM (BMA) and received a variable payment computed as 74.25% of the London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$42 million and the associated fixed rate bonds had a \$42 million principal amount at the time the swap was executed. The swap begins on July 15, 2003 and matures on September 29, 2014. Since the swap does not begin until July 15, there were no applicable rates as of June 30, 2003.

Fair Value:

As of June 30, 2003, the swap had a fair value of (\$1,141,400). The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap; assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

As of June 30, 2003, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

2002 \$46.8 Million Step-Up Coupon Swap

Objective:

In connection with its issuance of \$46,760,000 of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A, the City entered into a swap transaction with Salomon Smith Barney in January 2002. The intention of the swap was to change the City's variable interest rate on the bonds to a synthetic fixed rate that steps up over time. The swap was structured with step-up coupons in order to provide the City with lower debt service in the earlier years of the transaction.

Terms:

Under the swap, the City pays Salomon Smith Barney a fixed rate with an initial coupon of 2.503%. Beginning July 1, 2005 the swap coupon steps up to 3.749% and then to 4.945% on July 1, 2010 until maturity. In exchange, the City receives an initial variable rate equal to 59.65% of the 1-month London Interbank Offered Rate (LIBOR). Beginning January 1, 2004 the percent of LIBOR received by the City steps up to 60.56% and then to 62.92% of LIBOR on January 1, 2006 until maturity. The 4.945% coupon in the final period reflects the above-market fixed rate required to offset the first two periods' below-market fixed rates of 2.503% and 3.749% respectively. The effective at-market fixed rate for the entire swap term equals 3.85% or approximately 61.71% of LIBOR. The notional amount of the swap matches the notional amount of the bonds outstanding in each year. The bonds' variable-rate coupons are based on The Bond Market Association Municipal Swap Index™ (BMA). The bonds and related swap mature on July 1, 2032. As of June 30, 2003, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	2.503%
Variable payment from counterparty	59.65% of LIBOR	(0.787%)
Net interest rate swap payments		1.716%
Variable rate bond payments	BMA	0.850%
Synthetic interest rate on bonds		2.566%

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Fair Value:

As of June 30, 2003, the swap had a fair value of (\$8,064,000). The negative fair value of the swap is a result of the decline in interest rates since the inception date of the swap. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap; assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

As of June 30, 2003, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below Baa3 as determined by Moody's Investor Service or BBB- as determined by Standard & Poor's. If the swap were terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

2003 \$42 Million Fixed-to-Floating Swap

Objective:

On April 16, 2003 the City executed two transactions with Citibank, which comprised 1) the termination of an existing \$42 million fixed-to-floating swap maturing 2014 and 2) the execution of a new \$42 million fixed-to-floating swap maturing 2009. The City initially entered into a swap in September 1999 in order to convert its fixed-rate Certificates, into synthetic variable-rate debt. The fixed-receiver rate on the swap was 5.11%. Since interest rates had declined substantially since the City entered into the swap, the City received a net payment from Citibank to terminate the swap in the amount of \$4,743,000. The City executed a new \$42 million fixed-to-floating swap to manage interest rate volatility in its liability portfolio.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Terms:

Under the swap, the City receives a fixed rate of 4.00% and pays The Bond Market Association Municipal Swap Index TM (BMA) +100 bps. The swap has a notional amount of \$42 million and matures on January 15, 2009. As of June 30, 2003, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA + 100 bps	2.14%
Fixed payment from counterparty	Fixed	(4.00%)
Net interest rate swap payments		(1.86%)

Fair Value:

As of June 30, 2003, the swap had a fair value of \$1,232,500. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap; assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

Since the swap had a positive fair market value, the City is exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

The swap does not expose the City to basis risk since the swap is not based on the LIBOR index. If a change occurs that results in BMA increasing, the expected savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. If the swap were terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt.

Using rates as of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Fiscal Year Ending June 30	2002 Electric Certificates of Participation Series A			
	Variable-Rate Bonds		Interest Rate	
	Principal	Interest	Swaps, Net	Total
2004	\$	397,460	772,943	\$ 1,170,403
2005		397,460	772,943	1,170,403
2006		397,460	772,943	1,170,403
2007		397,460	1,355,572	1,753,032
2008		397,460	1,355,572	1,753,032
2009-2013	2,415,000	1,967,049	7,798,797	12,180,846
2014-2018	7,245,000	1,736,953	8,368,030	17,349,983
2019-2023	9,360,000	1,386,182	6,678,125	17,424,307
2024-2028	12,095,000	932,302	4,491,499	17,518,801
2029-2032	15,645,000	346,142	1,667,587	17,658,729
	<u>\$ 46,760,000</u>	<u>8,355,928</u>	<u>34,034,011</u>	<u>\$ 89,149,939</u>

Annual debt service requirements to maturity for certificates of participation are as follows:

Fiscal Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 485,000	\$ 1,186,447	\$ 4,925,000	\$ 3,849,638
2005	500,000	1,171,672	3,480,000	3,794,798
2006	520,000	1,156,372	2,545,000	3,472,473
2007	535,000	1,140,547	2,515,000	3,970,554
2008	555,000	1,123,642	5,465,000	3,886,329
2009-2013	3,050,000	5,296,104	22,370,000	17,905,156
2014-2018	3,740,000	4,569,058	19,270,000	12,963,804
2019-2023	4,700,000	3,573,113	11,945,000	9,357,407
2024-2028	5,980,000	2,264,500	14,855,000	5,716,256
2029-2032	5,950,000	613,250	15,645,000	2,013,729
Total	<u>\$ 26,015,000</u>	<u>\$ 22,094,705</u>	<u>\$ 103,015,000</u>	<u>\$ 66,930,144</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Capital Leases

The City has entered into lease agreements for financing the acquisition of two fire trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles	\$1,424,086
Less accumulated depreciation	(581,408)
Total	<u>\$ 842,678</u>

The present values of future minimum capital lease payments as of June 30, 2003, are as follows:

Fiscal Years Ending	
2004	\$ 217,514
2005	131,345
2006	131,345
2007	131,345
2008	131,345
Total minimum lease payments	742,894
Less amounts representing interest	(84,390)
Present value of minimum capital lease payments	<u>\$ 658,504</u>

Special Assessment District Debt

The City has issued limited obligation improvement bonds on July 22, 1996, for the "Lodi Central City Revitalization Assessment District." These bonds have no governmental commitment and debt service is recorded in an Agency Fund. These bonds were issued under the Improvement Act of 1915 and will mature in the year 2011. The City's liability in the event of delinquent assessment shall not exceed the balance of the established Reserve Fund. The amount outstanding as of June 30, 2003, is \$1,260,000.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Industrial Development Bonds

The City of Lodi has lent its name to the City of Lodi Industrial Development Authority for the purpose of issuing the following industrial development bonds: Minton Corporation \$5,000,000; Dart Corporation \$8,000,000; Wallace Computer Services \$3,000,000; and Luster-Cal Nameplate Corporation \$3,000,000. These bonds are special obligation bonds only, payable solely out of the bond revenues or other sources of the above companies and are not a pledge of the general credit of the City. The City is not obligated for the redemption or administration of these industrial development bonds.

(9) Nature and Purpose of Reported Fund Equity

The following is a summary of reserved, unreserved-designated and unreserved-undesignated fund balances at June 30, 2003:

	<u>General</u>	<u>Capital Outlay Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
Reserved for:				
Library	\$ 472,675			\$ 472,675
Encumbrances	336,840	5,224,919	1,180,282	6,742,041
Inventory	117,541			117,541
Total Reserved	<u>927,056</u>	<u>5,224,919</u>	<u>1,180,282</u>	<u>7,332,257</u>
Unreserved-designated for:				
Specific projects and programs		6,948,836	3,028,022	9,976,858
Total Designated		<u>6,948,836</u>	<u>3,028,022</u>	<u>9,976,858</u>
Unreserved - undesignated	639,652			639,652
Total Fund balances	<u>\$ 1,566,708</u>	<u>12,173,755</u>	<u>4,208,304</u>	<u>\$ 17,948,767</u>

Reserved Fund Balance and/or Retained Earnings

Reserved represents that portion that is legally segregated for specific purposes and is not available for discretionary appropriation.

Unreserved-Designated Fund Balance

Designated represents that portion for which the City has made tentative plans.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Unreserved-Undesignated Fund Balance

Undesignated represents that portion which is available for budgeting in future periods.

(10) Defined Benefit Pension Plan

(a) Plan Description

The City of Lodi contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office- 400 P Street, Sacramento, CA 95814.

(b) Funding policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 0.0% for miscellaneous employees, 0.0% for fire employees and 11.371% for police employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

(c) Annual Pension Cost

For fiscal 2003, the City's annual pension cost of \$542,458 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) (b) projected annual salary increases that vary by age, length of service, and type of employment (c) 3.75% payroll growth, and (d) 3.50% inflation. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. Amortization of remaining period varies: (a) safety police plan over 20 years (b) safety fire plan over 20 years, and (c) miscellaneous plan over 17 years as of the valuation date.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

d) Trend Information

Three-Year Trend information (\$ Amounts in Thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	543	100%	\$0
6/30/02	569	100%	\$0
6/30/03	543	100%	\$0

(11) Post-Retirement Health Care Benefits

The City provides no post-employment benefits for its employees. However, employees hired prior to July 1, 1994, who retire after ten years of service, may elect to convert accumulated sick leave time to establish an individual medical insurance account. Depending on the bargaining unit of the employee, the value of the insurance account shall be determined by the following options:

a) Option I - "Bank"

The number of accumulated hours shall be reduced by 16-2/3% and the remaining balance converted into days. The days are then multiplied by the current monthly premium being paid for the employee and, if applicable, his/her dependents. Fifty percent of that amount will be placed into an account to be used by the City to pay medical insurance premiums for the employee and, if applicable, his/her dependents. For each year of employment over ten years, 2.5% will be added to the 50% used in determining the account amount. Total premiums shall be paid from the account until its depletion, at which time the benefit ceases.

b) Option II - "Conversion"

The number of accumulated hours is multiplied by 50% and converted into days. The City pays one month's premium for employee and dependents for each day. For each year of employment in excess of ten years, 2.5% is added to the 50%. The employee must pay any increase in premiums.

c) Option III - "Cash-Out"

A retiring employee will be able to choose a cash pay-off of accumulated sick leave at the rate of 30% of base pay per hour.

d) Option IV - "Service Credit"

A retiring employee will be able to convert unused sick leave to service credit for CALPERS retirement purposes.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(12) **Claims and Benefits**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured as discussed in the following paragraphs for which liabilities are recorded in the Internal Service Fund.

The City is self-insured for general liability up to the first \$500,000 per occurrence with claims from \$500,000 to \$15,000,000 per occurrence and in the aggregate insured through the California Joint Powers Risk Management Authority. (See note 14)

The City is self-insured for workers' compensation up to the first \$250,000 per claim. Any claims of \$250,000 up to California statutory limits are covered under a purchased policy through the membership with the Local Agency Workers' Compensation Excess Joint Powers Authority. (See note 14).

The City is fully self-insured for dental, unemployment and long-term disability for its employees.

General liability and workers' compensation claims are administered by an outside agency and all other claims are administered by the City. The City has accrued a liability of \$3,290,581 at June 30, 2003, for all self-insured claims in the Internal Service Fund that includes an amount for incurred but not reported claims. The liability amount is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. In the opinion of the City, the amounts accrued are adequate to cover claims incurred but not reported in addition to known claims.

Changes in the self-insurance liability for fiscal years ended June 30, 2003 and 2002 are as follows:

	<u>Beginning</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending</u>
FY 01-02	\$ 3,576,629	768,211	(1,611,840)	\$ 2,733,000
FY 02-03	\$ 2,733,000	2,141,383	(1,583,802)	\$ 3,290,581

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(13) Participation in Joint Ventures

Northern California Power Agency

The City, along with fourteen other public agencies, is a member of the Northern California Power Agency (NCPA) that was formed in 1968 as a joint powers agency. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority and seven other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. A commission comprising of one representative from each member organization governs NCPA. The commission is responsible for the general management of the affairs, property and business of NCPA. Under the direction of the general manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each Project Participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

General Operating Reserve with NCPA

Members of NCPA established a general operating reserve in 1992 for the purposes of providing a vehicle to fund reasonably foreseeable contingent liabilities. It was set up primarily to provide the following advantages: minimizes the number and dollar amount of reserve that might otherwise be funded separately in connection with NCPA's individually financed operating plants, projects and programs; provides each member with flexibility and unilateral control over the determination of what they will fund, how they will fund it and what expenditures from the reserve will be made on their individual behalf. It provides funding for contingent liabilities that are not budgeted but that may require significant future expenditures. The reserve is segregated by participant and is refundable on demand by the participant.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

As of June 30, 2003, the City's balance in the NCPA General Operating Reserve, which has been credited with annual interest earnings and settlements, is approximately \$531,800.

Project Participation

The NCPA members and their percentage share at June 30, 2002, which is the most recent available data, are as follows:

	<u>Geothermal Project</u>	<u>Hydro Electric Project</u>	<u>Combustion Turbine Project #1</u>	<u>Multiple Capital Facilities</u>	<u>Transmission Project</u>
Alameda	16.8825	10.00	13.092	19.00	30.3590
Biggs	0.2270				0.4082
Gridley	0.3360				0.7103
Healdsburg	3.6740	1.66	3.500		6.6068
Lodi	10.2800	10.37	34.780	39.50	18.4861
Lompoc	3.6810	2.30	3.500	5.00	6.6194
Palo Alto		22.92			11.0736
Plumas-Sierra Rural Electric Cooperative	0.7010	1.69	1.090		1.4647
Roseville	7.8830	12.00	13.584	36.50	14.1756
Santa Clara	44.3905	37.02	25.000		
Turlock Irrigation District	6.3305				
Ukiah	5.6145	2.04	5.454		10.0963

Bulk power purchased by the City through NCPA amounted to \$30,772,425 during the year ended June 30, 2003 and is reflected in utilities expense in the electric enterprise fund.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 10.28% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered plants, Project Number 2 and Project Number 3. Outstanding long-term debt related to this project was approximately \$302 million at June 30, 2002.

As a result of high plant generation of NCPA and others in the same area, the Geothermal Project experienced greater than anticipated declines in steam production on its leasehold properties and the unit cost of the geothermal power is higher than originally planned. NCPA has taken several other steps to further slow the decline of the steam field. In April 1996, the conversion of one turbine unit to low pressure operation was

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

completed and the Southeast Geysers Effluent Pipeline Project is in operation. The Geothermal facilities currently generate an average of approximately 142 megawatts.

Calaveras Hydroelectric Project

NCPA contracted to finance, manage, construct and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District. In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA has also the option to purchase power from the project in excess of the District's requirements for the subsequent 50 years, subject to regulatory approval.

Under a power purchase agreement the City is obligated to pay 10.37% of the debt service and operating costs. At June 30, 2002, approximately \$506 million in long-term debt used to finance this project was outstanding.

NCPA Combustion Turbine Project

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peak power. Under the NCPA power agreement, the City is obligated to pay 34.78% of the debt service and operating costs. At June 30, 2002 approximately \$31 million in long-term debt was outstanding.

Transmission Project

The project was undertaken to meet certain obligations of NCPA under the NCPA/PG & E Interconnection Agreement. The project includes an ownership interest in PG & E's 230kv Castle Rock to Lakeville Substation Transmission Line in Sonoma County, additional firm transmission rights in that Transmission Line, and a central scheduling and dispatch facility in service at the NCPA headquarters in Roseville, California. Under a power purchase agreement, the City is obligated to pay 18.4861% of the debt service and operating costs. At June 30, 2002, approximately \$7 million in long-term debt was outstanding.

Multiple-Capital Facilities Project

The Project consists of two separate components: (1) A 49.9 megawatt combustion turbine, "Unit One", located in Lodi, California and owned and operated by the NCPA; (2) Improvements to the electric system owned and operated by the City of Lodi. Each of these components is supported by separate and unrelated member participation agreements.

Under a power purchase agreement, the City is obligated to pay 39.5% of the debt service and operating costs. At June 30, 2002, approximately \$144 million in long-term debt was outstanding.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

The following are the most recent available audited condensed financial statements of NCPA:

Combined Balance Sheet
June 30, 2002

Assets		Liabilities and Capitalization	
Current assets	\$ 67,981,000	Current portion of long-term debt	\$ 50,000,000
Restricted assets	281,630,000	Other current liabilities	35,990,000
Electric plant, net	531,125,000	Other liabilities and deferred credits	114,675,000
Other assets and deferred charges	<u>272,713,000</u>	Long-term debt	934,469,000
		Accumulated net revenues	<u>18,315,000</u>
Total assets	<u>\$ 1,153,449,000</u>	Total liabilities and capitalization	<u>\$ 1,153,449,000</u>

Combined Statement of Revenue and Expenses
Year ended June 30, 2002

Sales to participants for resale	\$ 273,734,000
Operating expenses	(220,720,000)
Other revenues (expenses)	(53,892,000)
Future recoverable costs	<u>13,240,000</u>
Net revenues before refunds	12,362,000
Refunds to participants	<u>(3,536,000)</u>
Net revenues	8,826,000
Accumulated net revenues, beginning of year	<u>9,489,000</u>
Accumulated net revenues, end of year	<u>\$ 18,315,000</u>

Combined Statement of Cash Flows
Year ended June 30, 2002

Net cash provided by operating activities	\$ 89,721,000
Net cash provided by investing activities	(22,016,000)
Net cash used in capital and related financing activities	(136,907,000)
Net cash used in noncapital and related financing activities	<u>(14,174,000)</u>
Increase in cash and cash equivalents	(83,376,000)
Cash and cash equivalents, beginning of year	<u>151,413,000</u>
Cash and cash equivalents end of year	<u>\$ 68,037,000</u>

At June 30, 2002, NCPA's total outstanding long-term debt was \$984,469,000 at an average interest rate of 5%. The current portion of long-term debt at June 30, 2002, was \$50,000,000.

Complete financial information for NCPA may be obtained at the following administration office:
Northern California Power Agency
180 Kirby Way
Roseville, CA 95678

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Transmission Agency of Northern California

The Transmission Agency of Northern California (TANC) was organized under the California Government Code pursuant to a joint powers agreement entered into by fifteen Northern California utilities including the City of Lodi. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro rata share of the costs to operate TANC and has the right to participate in future project agreements. The joint power agreement remains in effect until debt obligations and interest thereon have been paid, unless otherwise extended by the members.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As a Project Manager, TANC is responsible for the overall direction and coordination of all project development, construction work, operations and maintenance and for general and administrative support. The project was declared commercially operable on March 24, 1993 and provides a third transmission path or "intertie", between the electric systems of the Pacific Northwest and those in California. The major environmental requirements for the Project have been successfully met and completed.

In connection with its participation in the Project, TANC has an entitlement percentage in Project transfer capability and construction cost sharing of 85.2557%. TANC has incurred costs for Project construction of approximately \$445.4 million as of June 30, 2002. These costs have been capitalized by TANC since they are expected to be recovered through reimbursement from Project participants and the successful operation of the Project's transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for Project costs incurred and for the payment of debt service.

Under the TANC joint powers agreement, the City is obligated to pay 1.89% of its debt service and operating costs. At June 30, 2002, approximately \$361 million in long-term debt was outstanding of which \$6.3 million is considered current.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

The following are the most recent available audited condensed financial statements of TANC:

BALANCE SHEET
June 30, 2002

Assets

Electric Utility Plant, net	\$ 357,854,894
Restricted Assets	17,866,098
Current Assets	38,660,818
Noncurrent assets and deferred charges	<u>64,194,037</u>
Total Assets	<u>\$ 478,575,847</u>

Capitalization and Liabilities

Total members' equity	344,156
Accumulated other comprehensive income	1,300,869
Long-term debt	<u>354,372,110</u>
Total capitalization	356,017,135
Current liabilities	101,126,043
Noncurrent liability and deferred credit	<u>21,432,669</u>
Total capitalization and liabilities	<u>\$ 478,575,847</u>

STATEMENT OF INCOME
For the Year Ended June 30, 2002

Revenues:

Operating revenues	\$ 44,030,962
Interest income	<u>13,216,120</u>
Total revenues	<u>\$ 57,247,082</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Costs and expenses

General and other operating costs	\$ 11,115,234
Interest and other financing costs	28,485,855
Loss on interest swap valuation	7,637,281
Depreciation and amortization	<u>10,280,253</u>
Total costs and expenses	<u>57,518,623</u>

Net loss	(271,541)
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Members' equity, beginning of year	615,697
Members' equity, end of year	<u>344,156</u>
Total equity	<u>\$ 344,156</u>

Complete financial information for TANC may be obtained at the following administration office:
Transmission Agency of Northern California
3100 Zinfandel Drive, Suite 600
Sacramento, CA 95670

(14) Membership in Insurance Pools
California Joint Powers Risk Management Authority

The City is a member, along with twenty-three other public agencies, of California Joint Powers Risk Management Authority (CJPRMA) organized under a Joint Powers Agreement pursuant to the California Government Code for the purpose of sharing the risk of catastrophic general liability, automobile liability and public officials' errors and omissions losses because adequate insurance is not available in the commercial insurance market. CJPRMA has a twenty-one member Board of Directors, including a director from the City of Lodi. The Board members elect officers of CJPRMA every two years.

The ultimate cost of the program to the City depends on the catastrophic losses of all members, as well as the City's own loss experience and will be determined retrospectively five years after the end of the current program year. The City periodically pays deposits to the CJPRMA. These deposits are recorded as expenditures in the year paid, as they are a reasonable estimate of the actual cost of the program. During the year ended June 30, 2003, deposits of \$268,197 were paid to CJPRMA.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

The most recent condensed audited financial information of CJPRMA as of June 30, 2002 follows:

Balance Sheet		Statement of Revenues, Expenses and Retained Earnings	
June 30, 2002		Year Ended June 30, 2002	
Total Assets, primarily investments	\$ 61,449,095	Total Revenues	\$ 8,583,389
Liabilities		Total Expenses	(21,172,694)
Reserve for losses, Liability program	\$ 37,887,215	Operating Income	(12,589,305)
Reserve for losses, Worker's Compensation program	57,670	Investment Income	6,576,084
Accounts payable	68,061	Net Income	(6,013,221)
Accrued liabilities	13,143		
Total liabilities	38,026,089	Retained Earnings, beginning of year	34,688,892
Fund Equity		Refunds to members	(5,252,665)
Retained earnings	23,423,006	Retained earnings, end of year	\$ 23,423,006
Total Liabilities and Equity	\$ 61,449,095		

The participants and their percentage shares at June 30, 2002, are as follows: City of Alameda 3.68%, CCCMRMIA 4.96%, Chico 1.62%, Central San Joaquin Valley Risk Management Authority 14.99%, Fairfield 2.91%, Fremont 6.16%, Livermore 2.50%, Lodi 2.20%, Manteca 1.47%, NCCSIF 2.79%, Petaluma 1.70%, Redding 3.93%, Redwood Empire Municipal Insurance Fund 5.71%, Roseville 3.30%, San Leandro 2.99%, San Rafael 2.54%, Santa Barbara Area Joint Powers Insurance Authority 0.72%, Santa Rosa 5.50%, Small Cities Organized Risk Effort 2.0%, Stockton 7.84 %, Sunnyvale 6.23%, Vacaville 2.17%, Vallejo 3.33%, and Yolo County Public Agencies Risk Management Insurance Authority 8.76%.

Local Agency Workers' Compensation Excess Joint Powers Authority

The City, along with twenty-five other public agencies, is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which was formed July 1992, for the purpose of sharing the risk of workers' compensation losses. All members are self-insured up to \$250,000 per occurrence. LAWCX members pool resources to pay claims from \$250,000 to \$500,000 per occurrence and then use group purchasing power to obtain excess coverage through a commercial insurance company up to statutory limits.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

The most recent condensed audited financial statement information of LAWCX follows:

Balance Sheet June 30, 2002		Statement of Revenues, Expenses and Retained Deficit Year Ended June 30, 2002	
Total Assets, primarily investments	\$ <u>5,239,121</u>	Total Revenues	\$ 2,321,575
Liabilities:			
Accounts Payable	\$ 16,238	Total Expenses	<u>(3,431,608)</u>
Claims liabilities - Known Claims	2,687,791		
Claims liabilities - Incurred But Not Reported	3,747,908	Net Loss	(1,110,033)
Claims liabilities - for Unallocated Loss Adjustment Expense	<u>182,996</u>		
Total liabilities	6,634,933		
Retained Deficit:	<u>(1,395,812)</u>	Retained Deficit, beginning of year	<u>(285,779)</u>
Total Liabilities and Equity	\$ <u>5,239,121</u>	Retained Deficit, end of year	\$ <u><u>(1,395,812)</u></u>

The City paid \$112,727 in deposits to LAWCX during the fiscal year ended June 30, 2003.

The participants at June 30, 2002, are as follows: City of Alameda, Albany, AMSJPA, Brisbane, Central San Joaquin Valley Risk Mgmt Authority, Clovis Desert Hot Springs, East Bay Regional Park District, Emeryville, Management of Emeryville Services Authority, Fremont, Livermore, Lodi, Los Gatos, Merced, Morgan Hill, Newark, PARSAC, Piedmont, Roseville, Small Cities Org. Risk Effort (SCORE), South Lake Tahoe, Sunline Transit Agency, Union City, Vacaville, Vallejo and Vector Control JPA.

California Transit Insurance Pool

The City, along with thirty other public agencies is a member of California Transit Insurance Pool (CalTIP), a joint powers insurance authority which was formed for the purpose of sharing the risk of property damage, bodily injury, personal injury and public officials errors and omissions losses for public transit systems.

Liability protection coverage is provided under two programs:

Program I applies to members who choose to utilize CalTIP's adjuster and /or those with a \$0 deductible.

Program II applies to members with self-insured retentions who choose to provide their own adjusting services.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

CalTIP purchases excess insurance over its \$500,000 retention up to \$20 million per occurrence. Each member is provided with \$5 million in excess of the pooled retention and has the option to choose one or both of two additional layers for the full \$20 million.

CalTIP also provides physical damage coverage to its members. This coverage program is optional for all members and offers damage or loss protection for transit, staff and maintenance vehicles to transit operators. CalTIP self-insures to \$100,000, under which members have the option of five levels of deductible ranging from \$500 to \$10,000 per vehicle. Claims are administered by the CalTIP's adjuster.

The schedule below reflects the liability protection coverage at April 30, 2002, which is the most recent available data, for each of CalTIP's member agencies:

<u>Agency</u>	<u>Program</u>	<u>Retention</u>	<u>(in millions)</u>
Arcata Mad River Transit System	I	\$ Prefunded	\$ 20
Azusa	I	25,000	20
Butte County Transit System	II	25,000	20
Central Contra Costa Transit Authority	I	50,000	20
City of Auburn	II	250,000	5
City of Lodi Transit System	I	Prefunded	20
City of Vacaville	I	25,000	20
Culver City Municipal Bus Lines	II	250,000	5
Dixon	I	Prefunded	20
El Dorado County Transit	I	Prefunded	10
Folsom	II	250,000	5
Golden Empire Transit District	II	250,000	5
Humboldt Transit Authority	I	50,000	20
Livermore/Amador Valley Transit	I	Prefunded	10
Lincoln	II	250,000	5
Mendocino Transit Authority	I	25,000	5
Monterey-Salinas Transit	II	250,000	10
Morongo Basin Transit Authority	I	Prefunded	20
Napa County Transportation Authority	I	Prefunded	10
Nevada County Transit	II	25,000	10
Placer County Transit	II	100,000	20
Riverside Transit Agency	I	25,000	20
San Luis Obispo Regional Transit Authority	I	Prefunded	10

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Santa Cruz Metropolitan Transit District	II	250,000	20
Santa Rosa County Transit	II	100,000	20
Siskiyou County Transit	I	Prefunded	20
South Coast Area Transit	I	Prefunded	20
Vallejo Transit	I	25,000	20
Western Contra Costa County Transit Authority	II	100,000	20
Whittier	II	250,000	20
Yolo County Transportation District	I	Prefunded	20

The most recent condensed audited financial information of CalTIP as of April 30, 2002, is disclosed as follows:

Balance Sheet		Statement of Revenues, Expenses and Retained Earnings	
April 30, 2002		Year Ended April 30, 2002	
Total Assets, primarily cash and investments	\$ 11,385,304	Total Revenues	\$ 3,574,558
		Total Expenses	(3,005,535)
Total Liabilities	\$ 8,102,421	Net Income	569,023
			2,713,860
Retained earnings	3,282,883	Retained earnings, beginning of year	
Total Liabilities and Retained Earnings	\$ 11,385,304	Retained earnings, end of year	\$ 3,282,883

The City paid \$47,505 in deposits to CalTIP during the fiscal year ended June 30, 2003. There have been no reductions in insurance coverage from the prior year and there were no insurance settlements in excess of insurance coverage in any of the last three years.

(15) Deficit in Fund Equity

Internal Service Fund - Claims and Benefits - A deficit in fund equity at June 30, 2003, in the amount of \$2,176,869 in the Internal Service Fund is due to the self-insurance liability to cover both incurred and incurred-but-not-reported (IBNR) claims. The City plans to implement the deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

Water Fund - A deficit in fund equity at June 30, 2003, in the amount of \$3,426,319 in the Water Fund is primarily due to the accrued interest on the Environmental Abatement Certificates of Participation. The City plans on increasing the rates in 2004 not only to eliminate this deficit but also to replace and upgrade water lines in the older sections of the City.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

Litigation and claims - The City is a defendant in various lawsuits and is a party to various claims including environmental exposure. The City Attorney estimates that the potential claims against the City resulting from such litigation would not materially affect the financial condition of the City.

However, the City has been advised that its former outside counsel believes the City owes them approximately \$6 million in attorney fees. The City has been unable to confirm this amount. The City is assessing its obligations, if any, it may have at this time. Even if it is determined that the City owes these fees, it appears that at least a portion of that obligation would be met by the City's insurance carrier, which has to date already paid some of the firm's fees and there is a process for the payment of more. However, those fees covered are only for the defense end of the case, not the prosecution. The City has been unable at this time to assess what percentage of these fees are billable to its insurance carrier since its new counsel has only been involved in the case since mid-January 2004. However, the City Council has retained another outside counsel to assess those bills in question. As the ultimate outcome of this matter cannot be determined at this time, no liability has been recorded for any additional attorney fees owed.

Arbitrage Earnings Rebate Liability - Arbitrage earnings are defined as income earned on the unexpended tax-exempt certificate proceeds in excess of that which would have been earned had the moneys been invested in securities with a yield of the effective rate of the certificates. Currently, arbitrage earnings must be rebated to the United States Treasury every five years from the date of August 18, 1999, for the Electric System Certificates of Participation. The City has recorded an arbitrage liability of \$154,585 as of June 30, 2003 that is included in the Electric Fund's accounts payable and other liabilities.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(17) **Restatement of Fund Balances**

The City's beginning fund balances have been restated to reflect the cumulative effect of the implementation of GASB Interpretation No. 6. The impact of GASB Interpretation No. 6 was to reduce the current portion of certain long-term liabilities, and only recognize expenditures in the governmental fund financial statements for those liabilities considered to be due and payable as of June 30, 2002.

Fund Balances:

Fund Balances at June 30, 2002, as previously reported governmental fund types:	General Fund
Total fund balances as of June 30, 2002, as previously reported	\$ 3,063,922

GASB Interpretation No. 6 adjustment:

Reduction in current portion of long-term liabilities not considered due and payable	<u>300,000</u>
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Fund balances at June 30, 2002, as restated -governmental fund types	\$ <u><u>3,363,922</u></u>
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The Water Fund and the Transit fund beginning net assets have been adjusted as follows:

	Water Fund	Transit Fund
Net assets, beginning of year as previously reported in Enterprise funds	\$ 3,805,719	10,549,192
Adjustment to net assets:		
Accrued interest on the Environmental Abatement Program Certificates of Participation not recorded in prior years	(3,858,870)	
Unrealized accrued revenue in Transit fund		(450,000)
Net assets, as restated, beginning of year	<u><u>\$ (53,151)</u></u>	<u><u>10,099,192</u></u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2003

(18) **Subsequent Events**

California Statewide Communities Development Authority Water and Wastewater Revenue Bonds

On October 7, 2003, the City of Lodi along with the City of Fort Bragg issued \$9.855 million 2003 Series B revenue bonds through the California Statewide Communities Development Authority (the "Authority") pooled financing program. The City of Lodi's portion is \$5.0 million for the upgrade of its wastewater facilities.

The Authority's Water and Wastewater Pooled Financing Program is available to California water and wastewater agencies to facilitate the financing or refinancing of capital improvements. The program is available to California cities and special districts that operate water or wastewater enterprises. The Authority is authorized pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code to issue bonds to finance and refinance water and wastewater public capital improvements of local agencies located throughout California.

Woodbridge Irrigation District Bonds

On October 8, 2003, the City lent its name to the Woodbridge Irrigation District (the "District") in the procurement of \$11.745 million 2003 Revenue Certificates of Participation, to provide funds to finance the costs of construction of a new diversion dam on the Mokelumne River and related facilities of the water district. A significant portion of the District's sources of payment for the 2003 Certificates are expected to be derived from amounts to be received by the District from the City of Lodi pursuant to an Agreement for purchase of Water from the Woodbridge Irrigation District by the City of Lodi, dated May 13, 2003 (the "Lodi Water Sales Agreement").

REQUIRED SUPPLEMENTARY INFORMATION

City of Lodi
Required Supplementary Information
Schedule of Funding Progress - Pension Plan
June 30, 2003
 (in thousands of dollars)

Actuarial Valuation Date	Actuarial Asset Value (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability [(B) - (A)]	Funded Ratio [(A) / (B)]	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll {[(B) - (A)]/(C)}
6/30/00	136,603	113,757	(22,846)	120%	19,585	(116.65%)
6/30/01	140,463	125,752	(14,711)	112%	21,446	(68.60%)
6/30/02	130,903	134,344	3,441	97%	23,361	14.73%

CITY OF LODI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2003

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 21,421,852	21,421,852	21,451,941	\$ 30,089
Licenses and permits	1,655,554	1,655,554	1,669,402	13,848
Intergovernmental revenues	4,896,403	4,896,403	4,219,391	(677,012)
Charges for services	1,793,015	1,793,015	1,871,380	78,365
Fines, forfeits and penalties	854,227	854,227	803,095	(51,132)
Investment and rental income	824,204	824,204	221,390	(602,814)
Miscellaneous revenue	88,105	98,422	139,605	41,183
Total revenues	<u>31,533,360</u>	<u>31,543,677</u>	<u>30,376,204</u>	<u>(1,167,473)</u>
EXPENDITURES				
General government	10,151,700	11,577,958	10,874,090	703,868
Public protection	14,752,704	15,572,175	15,334,086	238,089
Public works	6,106,112	6,423,492	6,130,955	292,537
Library	1,323,472	1,363,062	1,316,008	47,054
Parks and recreation	3,142,830	3,587,879	3,385,288	202,591
Total expenditures	<u>35,476,818</u>	<u>38,524,566</u>	<u>37,040,427</u>	<u>1,484,139</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(3,943,458)	(6,980,889)	(6,664,223)	316,666
OTHER FINANCING SOURCES (USES)				
Transfers in	5,027,627	6,747,325	6,747,325	
Transfers out	(2,859,405)	(1,880,316)	(1,880,316)	
Other sources and uses	1,937,500			
Total other financing sources (uses)	<u>4,105,722</u>	<u>4,867,009</u>	<u>4,867,009</u>	
NET CHANGE IN FUND BALANCE	162,264	(2,113,880)	(1,797,214)	316,666
FUND BALANCE , beginning of year, restated	5,038,721	3,363,922	3,363,922	
FUND BALANCE, end of year	\$ 5,200,985	1,250,042	1,566,708	\$ 316,666

The note to the required supplementary information is an integral part of this schedule.

CITY OF LODI
Notes to the Required Supplementary Information
June 30, 2003

Budgetary Data

The City adopts an annual budget for the general and special revenue funds. These budgets are prepared in accordance with generally accepted accounting principles. As part of the City's internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the City Council. The accompanying financial statements present budget and actual data only of funds for which an annual budget was adopted. The budgets of capital projects are primarily "long-term" budgets that emphasize the major programs and capital project plans extending over a number of years. Due to the long-term nature of these projects, "annual" budget and actual comparisons are not considered meaningful. Formal budgetary integration is not employed for Debt Service Funds since effective budgetary control is alternatively achieved through the bond indenture provisions. Accordingly, no budgetary information is included in the accompanying financial statements for capital projects and debt service funds.

The City Council follows the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

Original Budget

On or prior to the first regular Council meeting in June of each year, the City Manager submits to the City Council a proposed Two-year Financial Plan and Budget for two fiscal years commencing July 1. The budget includes proposed expenditures and the means of financing them.

Budgeted revenues are adopted by the City Council at the time the budget is approved. Budgeted revenues are modified when the tax base changes, when fees are modified or when new revenue sources are identified.

Public hearings are conducted during meetings of the City Council to obtain citizens' comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- Budgeted expenditures represent original appropriations adjusted by budget transfers and appropriation amendments. The legal level of budgetary control (that is, the level at which expenditures can not legally exceed the appropriated

CITY OF LODI
Notes to the Required Supplementary Information (continued)
June 30, 2003

- amount) is at the department level. The operating budget is prepared and controlled at the department level (e.g., city clerk, city manager, etc.) for the General Fund. Special revenue fund expenditures, including transfers out, are approved by Council at the fund level.
- The City Manager may transfer appropriations from one activity to another within a department without approval from the City Council. All other appropriation adjustments during the year, whether transfers, increases or decreases, require City Council approval.

Under a two-year budget, all operating appropriations lapse at the end of the second year except for funds that are encumbered.

COMBINING AND INDIVIDUAL FUND STATEMENTS
AND SCHEDULES



NONMAJOR GOVERNMENTAL FUNDS

Nonmajor Governmental Funds include:

Special Revenue Funds account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes; other than those for major capital projects;

Debt Service Fund account for the accumulation of resources for the repayment of principal and interest on general long-term debt;

Capital Project Funds account for the financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds;

CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003

<u>Assets</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and investments	\$ 1,500,314	780,078	\$ 2,280,392
Receivables:			
Accounts		114,742	114,742
Interest	15,204	1,203	16,407
Due from other funds	1,927,747		1,927,747
Due from other governmental agencies	1,872,109		1,872,109
Advance receivables	1,084,000		1,084,000
Total assets	<u>\$ 6,399,374</u>	<u>896,023</u>	<u>\$ 7,295,397</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and other liabilities	\$ 569,526	21,466	\$ 590,992
Due to other funds	1,339,101	73,000	1,412,101
Deferred revenue	1,084,000		1,084,000
Total liabilities	<u>2,992,627</u>	<u>94,466</u>	<u>3,087,093</u>
Fund Balances :			
Reserved for encumbrances	1,084,660	95,622	1,180,282
Unreserved-designated	2,322,087	705,935	3,028,022
Total fund balances	<u>3,406,747</u>	<u>801,557</u>	<u>4,208,304</u>
Total liabilities and fund balances	<u>\$ 6,399,374</u>	<u>896,023</u>	<u>\$ 7,295,397</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2003

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes	\$ 790,560			\$ 790,560
Intergovernmental revenues	3,140,906			3,140,906
Charges for services	2,096,206			2,096,206
Investment and rental income	89,464		2,099	91,563
Miscellaneous revenue	40,278		92,961	133,239
Total revenues	<u>6,157,414</u>		<u>95,060</u>	<u>6,252,474</u>
Expenditures:				
Current:				
General government				
Public protection	263,314			263,314
Public works	755,033			755,033
Capital outlay	2,905,489		795,569	3,701,058
Debt service:				
Interest and fiscal charges		1,220,040		1,220,040
Principal payments		730,000		730,000
Total expenditures	<u>3,923,836</u>	<u>1,950,040</u>	<u>795,569</u>	<u>6,669,445</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,233,578</u>	<u>(1,950,040)</u>	<u>(700,509)</u>	<u>(416,971)</u>
Other financing sources (uses):				
Transfers in	9,891	1,950,040	895,079	2,855,010
Transfers out	<u>(2,009,471)</u>		<u>(20,000)</u>	<u>(2,029,471)</u>
Total other financing sources (uses)	<u>(1,999,580)</u>	<u>1,950,040</u>	<u>875,079</u>	<u>825,539</u>
Net change in fund balances	233,998		174,570	408,568
Fund balances, beginning of year	<u>3,172,749</u>		<u>626,987</u>	<u>3,799,736</u>
Fund balances, end of year	<u>\$ 3,406,747</u>		<u>801,557</u>	<u>\$ 4,208,304</u>

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

SPECIAL REVENUE FUNDS

Public Safety

This fund was established to account for the revenues and expenditures related to the City's share of property forfeited by persons convicted of possession and selling illegal drugs and the State of California auto theft prosecution moneys.

Streets Fund

This fund was established to account for the following:

Gas Tax

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code. Portions of the tax rate levied by the State of California on all gasoline purchases are allocated to cities throughout the State on a population basis. These funds are restricted for expenditure by the State of California for street related purposes only.

Development Impact Mitigation Fees

To account for impact fees charged to provide for the building of various storm drains and street improvements needed to serve new development. The fees are calculated on a per acre basis and are collected at subdivision final map approval or with building permit stage effective November 4, 1991.

Master Storm Drain

To account for the funding of construction or modification of the City's storm drain system.

Measure K Sales Tax

To account for revenues and expenditures apportioned to the City for sales tax collections under Measure K. Expenditures for administration, maintenance and construction must be for street-related projects.

Intermodal Surface Transportation Efficiency Act (ISTEA)

To account for revenues from the federal highway administration for programs including surface transportation program (STP) for streets and roads, congestion mitigation and air quality program (CMAQ) and hazard elimination safety (HES) for street lighting projects.

Transportation Fund

This fund was established to account for the receipt of moneys from the State of California apportioned to the City for transportation purposes. The State has designated 1/4% of the 6% sales tax levied statewide for local transportation purposes. Funding for this program was provided during the 1971 legislative session with the enactment of the Transportation Development Act, which extended the 6% sales tax to include purchases of gasoline. Revenues allocated to the City of Lodi under this program are divided into two categories: Article 8 funds, which are restricted for the improvement and maintenance of street systems; and Article 4 funds, which are restricted for public transit systems.

HOME Program/Community Development Block Grants

and moderate-income residents to develop a suitable living environment and expand economic opportunities; and account for moneys provided for adequate and affordable housing for low and very low-income residents.

CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
June 30, 2003

	<u>Public Safety</u>	<u>Streets</u>	<u>Transportation</u>	<u>HOME Program & Community Development Block Grants</u>	<u>Total</u>
ASSETS					
Cash and Investments	\$ 343,811	1,143,279	13,224		\$ 1,500,314
Receivables:					
Interest	1,261	13,678	265		15,204
Due from other funds		1,927,747			1,927,747
Due from other governmental agencies	55,982	1,221,402		594,725	1,872,109
Advance receivables				1,084,000	1,084,000
TOTAL ASSETS	<u>\$ 401,054</u>	<u>4,306,106</u>	<u>13,489</u>	<u>1,678,725</u>	<u>\$ 6,399,374</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and other liabilities	\$ 12,487	537,540	7,105	12,394	\$ 569,526
Due to other funds		756,770		582,331	1,339,101
Deferred revenue				1,084,000	1,084,000
TOTAL LIABILITIES	<u>12,487</u>	<u>1,294,310</u>	<u>7,105</u>	<u>1,678,725</u>	<u>2,992,627</u>
FUND BALANCES					
Fund balances:					
Reserved for encumbrances		1,084,660			1,084,660
Unreserved-designated for specific projects and programs	388,567	1,927,136	6,384		2,322,087
TOTAL FUND BALANCES	<u>388,567</u>	<u>3,011,796</u>	<u>6,384</u>		<u>3,406,747</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 401,054</u>	<u>4,306,106</u>	<u>13,489</u>	<u>1,678,725</u>	<u>\$ 6,399,374</u>

CITY OF LODI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 Year ended June 30, 2003

	Public Safety	Streets	Transportation	HOME Program & Community Development Block Grants	Total
REVENUES					
Taxes	\$	790,560			\$ 790,560
Intergovernmental revenues	363,253	1,891,337	36,645	849,671	3,140,906
Charges for services		2,096,206			2,096,206
Investment and rental income	6,891	80,307	2,266		89,464
Miscellaneous revenue		40,278			40,278
Total revenues	<u>370,144</u>	<u>4,898,688</u>	<u>38,911</u>	<u>849,671</u>	<u>6,157,414</u>
EXPENDITURES					
Current					
Public protection	263,314				263,314
Public works		24,864		730,169	755,033
Capital outlay	19,373	2,690,992	75,622	119,502	2,905,489
Total expenditures	<u>282,687</u>	<u>2,715,856</u>	<u>75,622</u>	<u>849,671</u>	<u>3,923,836</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>87,457</u>	<u>2,182,832</u>	<u>(36,711)</u>		<u>2,233,578</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	9,891				9,891
Transfers out	(77,671)	(1,601,998)	(329,802)		(2,009,471)
Total other financing sources (uses)	<u>(67,780)</u>	<u>(1,601,998)</u>	<u>(329,802)</u>		<u>(1,999,580)</u>
NET CHANGE IN FUND BALANCES	19,677	580,834	(366,513)		233,998
FUND BALANCES, beginning of year	<u>368,890</u>	<u>2,430,962</u>	<u>372,897</u>		<u>3,172,749</u>
FUND BALANCES, end of year	<u>\$ 388,567</u>	<u>3,011,796</u>	<u>6,384</u>		<u>\$ 3,406,747</u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2003

	PUBLIC SAFETY		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 207,390	363,253	155,863
Investment and rental income	31,105	6,891	(24,214)
Total Revenue	<u>238,495</u>	<u>370,144</u>	<u>131,649</u>
EXPENDITURES			
Current			
Public protection	466,151	263,314	202,837
Capital outlay	19,373	19,373	
Total Expenditures	<u>485,524</u>	<u>282,687</u>	<u>202,837</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(247,029)</u>	<u>87,457</u>	<u>334,486</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,891	9,891	
Transfers out	(77,671)	(77,671)	
Total other financing sources (uses)	<u>(67,780)</u>	<u>(67,780)</u>	
NET CHANGE IN FUND BALANCE	(314,809)	19,677	334,486
FUND BALANCE, BEGINNING OF YEAR	368,890	368,890	
FUND BALANCE, END OF YEAR	<u>\$ 54,081</u>	<u>388,567</u>	<u>334,486</u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2003

	STREETS		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes	\$ 795,690	790,560	(5,130)
Intergovernmental revenues	5,769,575	1,891,337	(3,878,238)
Charges for services	829,000	2,096,206	1,267,206
Investment and rental income	157,935	80,307	(77,628)
Miscellaneous revenue		40,278	40,278
Total Revenue	<u>7,552,200</u>	<u>4,898,688</u>	<u>(2,653,512)</u>
EXPENDITURES			
Current			
Public works	24,864	24,864	
Capital outlay	<u>4,833,375</u>	<u>2,690,992</u>	<u>2,142,383</u>
Total Expenditures	<u>4,858,239</u>	<u>2,715,856</u>	<u>2,142,383</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>2,693,961</u>	<u>2,182,832</u>	<u>(511,129)</u>
OTHER FINANCING USES			
Transfers out	<u>(1,601,998)</u>	<u>(1,601,998)</u>	
Total other financing uses	<u>(1,601,998)</u>	<u>(1,601,998)</u>	
NET CHANGE IN FUND BALANCE	1,091,963	580,834	(511,129)
FUND BALANCE, BEGINNING OF YEAR	<u>2,430,962</u>	<u>2,430,962</u>	
FUND BALANCE, END OF YEAR	<u>\$ 3,522,925</u>	<u>3,011,796</u>	<u>(511,129)</u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2003

	TRANSPORTATION		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes	\$		
Intergovernmental revenues	2,000,000	36,645	(1,963,355)
Investment and rental income		2,266	2,266
Total Revenue	<u>2,000,000</u>	<u>38,911</u>	<u>(1,961,089)</u>
EXPENDITURES			
Current			
Public works	14,680		14,680
Capital outlay	96,007	75,622	20,385
Total Expenditures	<u>110,687</u>	<u>75,622</u>	<u>35,065</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>1,889,313</u>	<u>(36,711)</u>	<u>(1,926,024)</u>
OTHER FINANCING USES			
Transfers out	(329,802)	(329,802)	
Total other financing uses	<u>(329,802)</u>	<u>(329,802)</u>	
NET CHANGE IN FUND BALANCE	1,559,511	(366,513)	(1,926,024)
FUND BALANCE, BEGINNING OF YEAR	372,897	372,897	
FUND BALANCE, END OF YEAR	<u>\$ 1,932,408</u>	<u>6,384</u>	<u>(1,926,024)</u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2003

	HOME PROGRAM and COMMUNITY DEVELOPMENT BLOCK GRANTS		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes	\$		
Intergovernmental revenues	2,992,087	849,671	(2,142,416)
Total Revenue	<u>2,992,087</u>	<u>849,671</u>	<u>(2,142,416)</u>
EXPENDITURES			
Current			
Public works	2,872,585	730,169	2,142,416
Capital outlay	119,502	119,502	
Total Expenditures	<u>2,992,087</u>	<u>849,671</u>	<u>2,142,416</u>
NET CHANGE IN FUND BALANCE			
FUND BALANCE, BEGINNING OF YEAR			
FUND BALANCE, END OF YEAR	\$		

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

CAPITAL PROJECT FUNDS

Vehicle and Equipment Fund

This fund was established to account for the financing and replacement of vehicles and equipment for all funds of the City with the exception of the Enterprise Funds. Financing is primarily provided through operating transfers from other funds, interest earnings and sales of surplus property.

Library Fund

This fund is used to account for the acquisition, construction and installation of capital facilities for the Library.

Subdivision Fund

This fund is used to account for construction and installation projects dealing with subdivision work for others.

Hutchins Street Square Fund

When the old Lodi High School burnt down, the City purchased the property and renamed it Hutchins Street Square. The Old Lodi High Site Foundation was established and this organization organizes events to raise money for the capital restoration of Hutchins Street Square.

Lodi Lake Fund

This fund was established to account for moneys charged for activities held at Lodi Lake. The Council designated the moneys to be used for Lodi Lake capital projects.

CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
June 30, 2003

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Lodi Lake	Total
ASSETS						
Cash and investments	\$ 149,108	161,563	300,339	3,577	165,491	\$ 780,078
Receivables:						
Accounts	41,742			73,000		114,742
Interest		555			648	1,203
TOTAL ASSETS	<u>\$ 190,850</u>	<u>162,118</u>	<u>300,339</u>	<u>76,577</u>	<u>166,139</u>	<u>\$ 896,023</u>
LIABILITIES						
Accounts payable and other liabilities	\$ 20,829	86			551	\$ 21,466
Due to other funds				73,000		73,000
TOTAL LIABILITIES	<u>20,829</u>	<u>86</u>		<u>73,000</u>	<u>551</u>	<u>94,466</u>
FUND BALANCES						
Fund balances:						
Reserved for encumbrances	94,074	1,548				95,622
Unreserved-designated for specific projects and programs	75,947	160,484	300,339	3,577	165,588	705,935
TOTAL FUND BALANCES	<u>170,021</u>	<u>162,032</u>	<u>300,339</u>	<u>3,577</u>	<u>165,588</u>	<u>801,557</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 190,850</u>	<u>162,118</u>	<u>300,339</u>	<u>76,577</u>	<u>166,139</u>	<u>\$ 896,023</u>

CITY OF LODI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
 Year ended June 30, 2003

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Lodi Lake	Total
REVENUES						
Investment and rental income	\$	94			2,005	\$ 2,099
Miscellaneous revenue	50,710	25,000			17,251	92,961
Total revenues	50,710	25,094			19,256	95,060
EXPENDITURES						
Current						
Capital outlay	585,548	83,665			126,356	795,569
Total expenditures	585,548	83,665			126,356	795,569
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(534,838)	(58,571)			(107,100)	(700,509)
OTHER FINANCING SOURCES (USES)						
Transfers in	550,079	169,000			176,000	895,079
Transfers out	(20,000)					(20,000)
Total other financing sources (uses)	530,079	169,000			176,000	875,079
NET CHANGE IN FUND BALANCES	(4,759)	110,429			68,900	174,570
FUND BALANCES, BEGINNING OF YEAR	174,780	51,603	300,339	3,577	96,688	626,987
FUND BALANCES, END OF YEAR	\$ 170,021	162,032	300,339	3,577	165,588	\$ 801,557



FIDUCIARY FUNDS

Private-purpose Trust Fund

This fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way Beckman Districts and the Downtown and Cherokee Lane Districts.

CITY OF LODI
 COMBINING STATEMENT OF FUDUCIARY NET ASSETS
 PRIVATE-PURPOSE TRUST FUNDS
 June 30, 2003

	Private-Purpose Trust Funds			Total
	Private Sector	Hutchins Street Square Bequest		
ASSETS				
Cash and Investments	\$ 544,224	400	\$	544,624
TOTAL ASSETS	<u>544,224</u>	<u>400</u>		<u>544,624</u>
NET ASSETS	\$ <u>544,224</u>	<u>400</u>	\$	<u>544,624</u>

CITY OF LODI
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2003

	Private-Purpose Trust Funds		
	Private Sector	Hutchins Street Square Bequest	Total
ADDITIONS			
Investment and rental income	\$	6	\$ 6
Total additions		6	6
DEDUCTIONS			
Current			
Library	64,749		64,749
Total deductions	64,749		64,749
CHANGE IN NET ASSETS	(64,749)	6	(64,743)
NET ASSETS, BEGINNING OF YEAR	608,973	394	609,367
NET ASSETS, END OF YEAR	\$ 544,224	400	\$ 544,624

CITY OF LODI
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year ended June 30, 2003

	Special Assessments			
	Balance 7/1/02	Additions	Deductions	Balance 6/30/03
ASSETS				
Cash and investments	\$ 380,249	215,217	228,733	\$ 366,733
Special assessment receivable	40,894	40,463	40,894	40,463
Interest receivable	3,576	1,256	3,576	1,256
 TOTAL ASSETS	 \$ 424,719	 256,936	 273,203	 \$ 408,452
 LIABILITIES				
Accounts payable and other liabilities	\$ 424,719		16,267	\$ 408,452
 TOTAL LIABILITIES	 \$ 424,719	 	 16,267	 \$ 408,452



STATISTICAL TABLES

UNAUDITED



CITY OF LODI
GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
(Amounts in Thousands)

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Protection</u>	<u>Public Works</u>	<u>Library</u>	<u>Parks & Recreation</u>	<u>Interest On Long-term Debt</u>	<u>Electric</u>	<u>Wastewater</u>	<u>Water</u>	<u>Transit</u>	<u>Total</u>
2002-03	\$ 12,238	\$ 16,632	\$ 10,946	\$ 1,454	\$ 3,989	\$ 1,215	\$ 51,388	\$ 6,141	\$ 12,879	\$ 5,389	\$ 120,585

Note: Information is available beginning in fiscal year 2003, when the City implemented GASB 34 "Basic Financial Statements - and Management Discussions and Analysis - for State and Local Governments."

SOURCE: City Finance Department

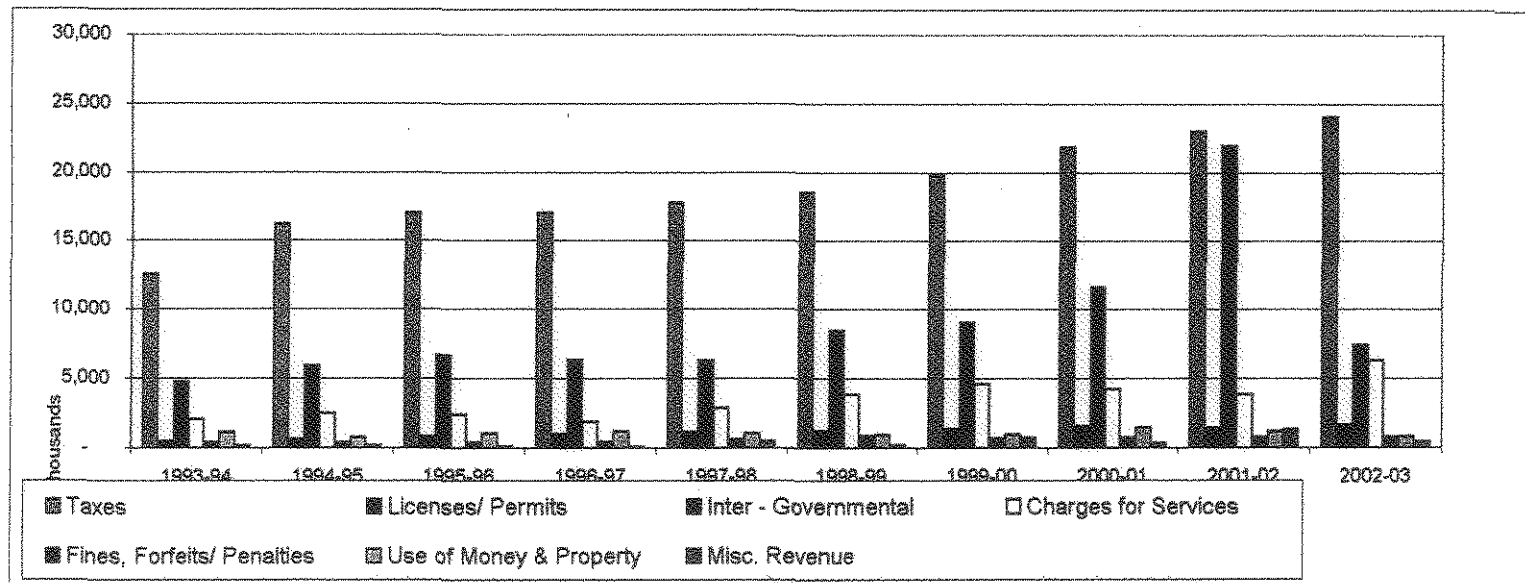
CITY OF LODI
GOVERNMENT-WIDE REVENUES
LAST TEN FISCAL YEARS
(Amounts in Thousands)

<u>Fiscal Year</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Taxes</u>	<u>Motor Vehicle in-Lieu</u>	<u>Investment Earnings</u>	<u>Other</u>	<u>Special Item Litigation Settlement</u>	<u>Total</u>
2002-03	\$ 65,331	\$ 13,727	\$ 13,380	\$ 23,884	\$ 3,430	\$ 6,726	\$ 1,761	\$ 2,728	\$ 130,967

Note: Information is available beginning in fiscal year 2003, when the City implemented GASB 34
"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

SOURCE: City Finance Department

CITY OF LODI
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS
 (Amounts in Thousands)



Fiscal Year	Taxes	Licenses/ Permits	Inter - Governmental	Charges for Services	Fines, Forfeits/ Penalties	Use of Money & Property	Misc. Revenue	Total
1993-94	\$ 12,579	\$ 507	\$ 4,756	\$ 2,100	\$ 407	\$ 1,157	\$ 199	\$ 21,705
1994-95	16,209	** 634	5,928	2,517	406	808	201	26,703
1995-96	17,070	842	6,642	2,428	421	1,063	140	28,608
1996-97	17,029	1,012	6,316	1,908	453	1,218	80	28,014
1997-98	17,790	1,183	6,291	2,871	662	1,060	524	30,381
1998-99	18,594	1,287	8,493	3,874	878	982	243	34,331
1999-00	19,801	1,406	9,054	4,611	714	982	784	37,332
2000-01	21,909	1,592	11,841	4,249	765	1,509	383	42,048
2001-02	23,043	1,464	22,000	3,888	806	1,234	1,349	53,784
2002-03	24,100	1,669	7,385	6,272	803	832	453	41,514

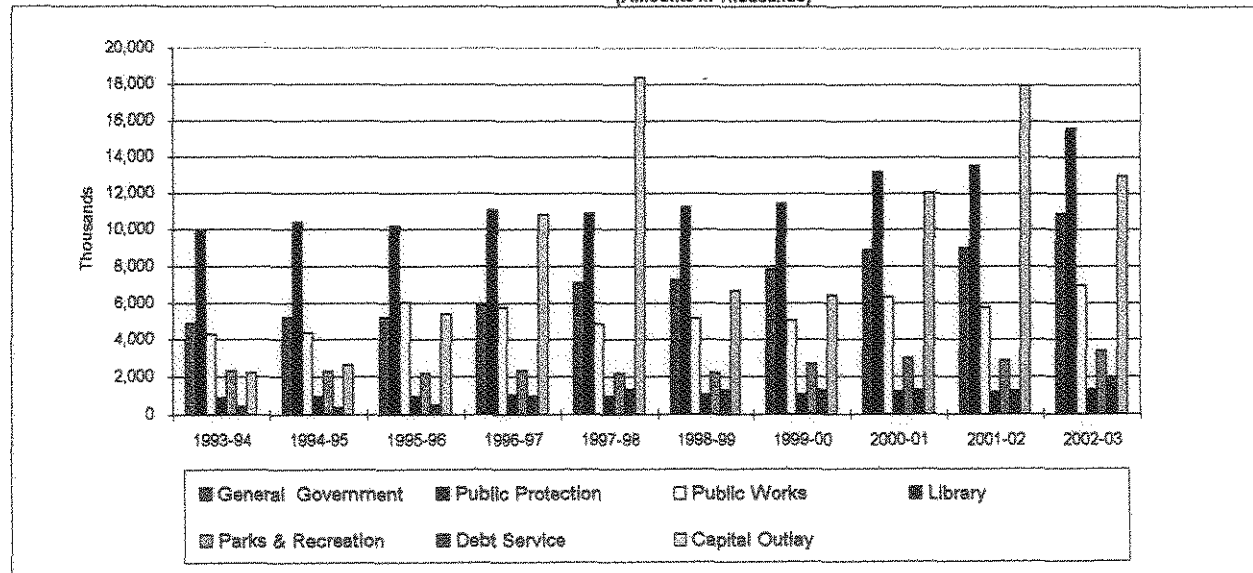
General Governmental Revenues include General, Special Revenue, Debt Service and Capital Projects Funds. Excludes Expendable Trusts.

SOURCE: City Finance Department

* Due to change in accounting for refuse revenue.

**Due to in-lieu taxes from Enterprise Funds.

CITY OF LODI
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
(Amounts in Thousands)



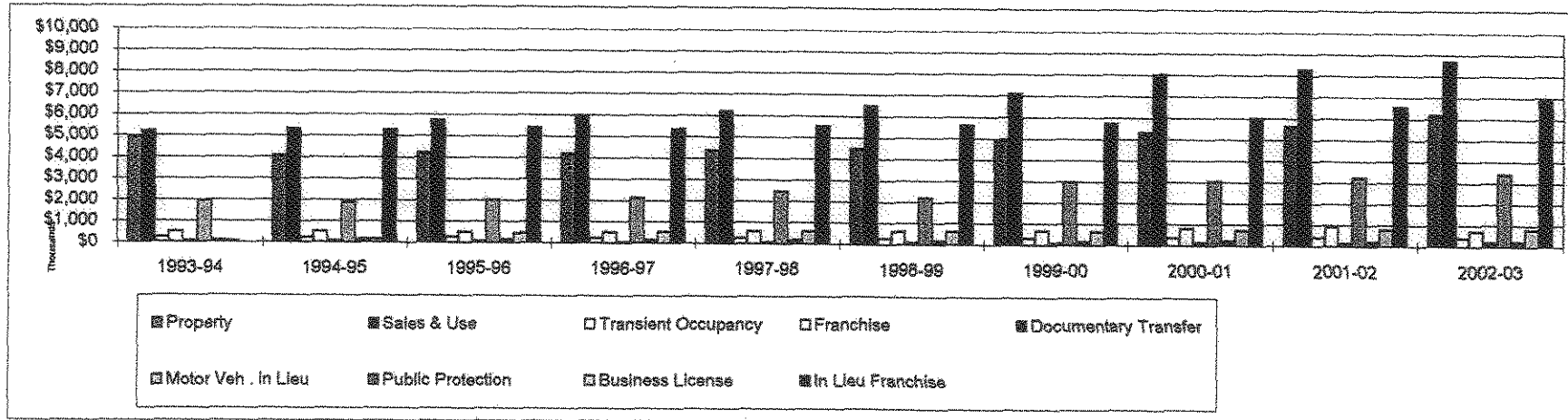
Fiscal Year	General Government	Public Protection	Public Works	Library	Parks & Recreation	Debt Service	Capital Outlay	Total
1993-94	\$ 4,908	\$ 9,949	\$ 4,296	\$ 881	\$ 2,307	\$ 405	\$ 2,203	\$ 24,949
1994-95	5,211	10,401	4,382	956	2,299	345	2,652	26,246
1995-96	5,217	10,172	6,012	954	2,198	500	5,378	30,431
1996-97	5,862	11,059	5,749	1,012	2,312	939	10,810	37,763
1997-98	7,068	10,896	4,810	966	2,174	1,289	18,383	45,585
1998-99	7,239	11,225	5,151	1,030	2,230	1,282	6,840	34,797
1999-00	7,813	11,430	5,038	1,040	2,670	1,282	6,420	35,694
2000-01	8,862	13,190	6,312	1,184	2,999	1,285	12,045	45,877
2001-02	8,987	13,562	6,741	1,158	2,860	1,233	17,948	51,489
2002-03	10,874	15,597	6,926	1,316	3,385	1,950	12,942	52,990

General Governmental Expenditures includes General, Special Revenue, Debt Service and Capital Projects Funds.
Excludes Expendable Trusts.

SOURCE: City Finance Department

* Due to change in accounting for refuse expenditures.

CITY OF LODI
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Amounts in Thousands)

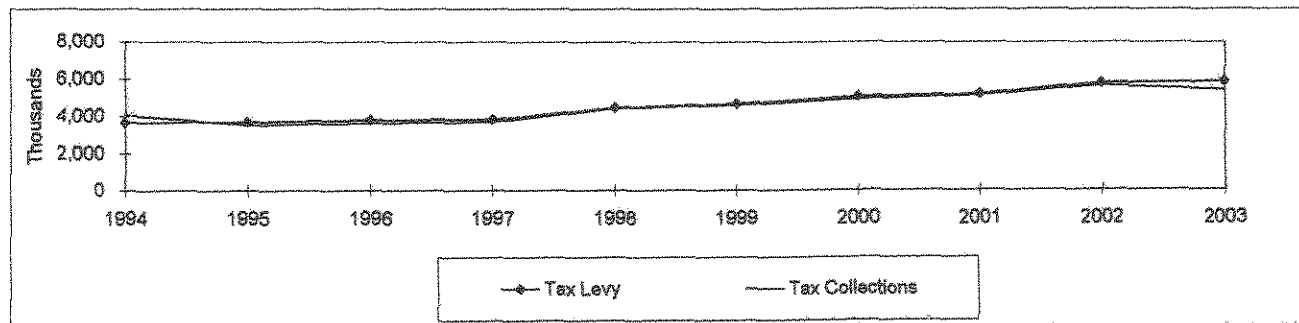


Fiscal Year	Property	Sales & Use	Transient Occupancy	Franchise	Documentary Transfer	Motor Veh. in Lieu	Public Protection	Business License	In Lieu Franchise	Total (1)
1993-94	\$ 4,950	\$ 5,221	\$ 247	\$ 508	\$ 68	\$ 1,972	\$ 98	\$ 92	\$ -	\$ 13,156
1994-95	4,077	5,320	248	508	68	1,885	149	169	5,300	17,722
1995-96	4,206	5,763	278	503	75	2,023	154	470	5,413	18,885
1996-97	4,225	5,950	249	524	66	2,144	154	541	5,348	19,201
1997-98	4,374	6,205	278	586	77	2,478	180	593	5,546	20,317
1998-99	4,517	6,523	305	618	119	2,221	180	612	5,627	20,722
1999-00	4,832	7,095	318	675	116	3,008	196	656	5,721	22,719
2000-01	5,322	8,028	390	820	158	3,051	242	736	6,015	24,762
2001-02	5,641	8,300	439	931	172	3,276	231	787	6,569	26,346
2002-03	6,191	8,709	400	730	207	3,430	247	822	6,895	27,631

(1) General governmental tax revenues are included in taxes, licenses and permits, intergovernmental revenues and miscellaneous revenue of the City's General Fund.

SOURCE: City Finance Department

**CITY OF LODI
SECURED TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Amounts in Thousands)**



Fiscal Year	Total Tax Levy	Current Year's Tax Collections	Percent of Collections to Tax Levy	Delinquent Tax Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1994	\$ 3,639	\$ 3,461	95.1%	\$ 624	\$ 4,085	112.3%
1995	3,670	3,516	95.8%	9	3,525	96.0%
1996	3,781	3,615	95.6%	-	3,615	95.6%
1997	3,827	3,682	96.2%	-	3,682	96.2%
1998	4,444	4,433	99.8%	-	4,433	99.8%
1999	4,653	4,578	98.4%	-	4,578	98.4%
2000	5,056	4,917	97.3%	-	4,917	97.3%
2001	5,182	5,118	98.8%	-	5,118	98.8%
2002	5,757	5,640	98.0%	-	5,640	98.0%
2003	5,832	5,408	92.7%	-	5,408	92.7%

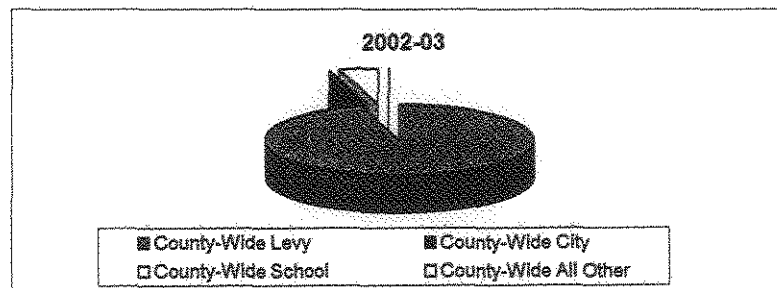
SOURCE: County Auditor-Controller

CITY OF LODI
 ASSESSED FULL CASH VALUE OF ALL TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Amounts in Thousands)

<u>Fiscal Year</u>	<u>Secured Roll</u>	<u>Mineral Roll</u>	<u>Utility Roll</u>	<u>Unsecured Roll</u>	<u>Tax Roll</u>	<u>Less Exemptions</u>	<u>Net Tax Roll</u>
1993-94	\$ 2,305,937	\$ 12	\$ 2,736	\$ 107,151	\$ 2,415,836	\$ 125,486	\$ 2,290,350
1994-95	2,353,069		3,504	115,180	2,471,753	164,592	2,307,161
1995-96	2,427,757		3,560	125,011	2,556,328	170,899	2,385,429
1996-97	2,463,536		3,557	125,907	2,593,000	172,945	2,420,055
1997-98	2,515,478		3,699	129,396	2,648,573	176,500	2,472,073
1998-99	2,574,622		3,826	146,345	2,724,793	179,835	2,544,958
1999-00	2,707,343		3,525	163,299	2,874,167	183,294	2,690,873
2000-01	2,880,201		3,484	177,040	3,060,725	185,473	2,875,252
2001-02	3,066,937		3,379	198,678	3,298,994	190,252	3,108,742
2002-03	3,381,945		3,352	207,095	3,592,392	200,957	3,391,435
<u>Fiscal Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Total</u>	<u>Less Exemptions</u>	<u>Net Assessed Value</u>	
1993-94	\$ 639,421	\$ 1,575,675	\$ 200,740	\$ 2,415,836	\$ 125,486	\$ 2,290,350	
1994-95	663,227	1,808,584	199,962	2,471,753	164,592	2,307,161	
1995-96	691,116	1,654,842	210,370	2,556,328	170,899	2,385,429	
1996-97	709,296	1,673,877	209,627	2,593,000	172,945	2,420,055	
1997-98	728,900	1,705,635	214,038	2,648,573	176,500	2,472,073	
1998-99	756,166	1,748,387	220,240	2,724,793	179,835	2,544,958	
1999-00	787,249	1,847,800	238,118	2,874,167	183,294	2,690,873	
2000-01	832,788	1,982,668	245,269	3,060,725	185,473	2,875,252	
2001-02	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742	
2002-03	960,166	2,366,887	265,339	3,592,392	200,957	3,391,435	

Source: San Joaquin County Assessor's Office

CITY OF LODI
PROPERTY TAX RATES -- DIRECT & OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
Per \$100.00 of Assessed Value



Fiscal	Basic				
Year	County-Wide	City	School	All Other	Total
1993-94	1.0000	0.0146	0.0246	0.0034	1.0426
1994-95	1.0000	0.0128	0.0140	0.0034	1.0300
1995-96	1.0000	0.0123	0.0028	0.0034	1.0185
1996-97	1.0000	0.0000	0.0022	0.0034	1.0056
1997-98	1.0000	0.0000	0.0019	0.0034	1.0053
1998-99	1.0000	0.0000	0.0001	0.0034	1.0035
1999-00	1.0000	0.0000	0.0002	0.0034	1.0036
2000-01	1.0000	0.0000	0.0002	0.0000	1.0002
2001-02	1.0000	0.0000	0.0002	0.0000	1.0002
2002-03	1.0000	0.0000	0.0487	0.0000	1.0487

SOURCE: San Joaquin County Auditor/Controller's Office

CITY OF LODI
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS
(Amounts in Thousands)

<u>Fiscal Year</u>	<u>Current Assessments Due</u>	<u>Current Assessments Collected</u>	<u>Total Collection As Percent of Current Assessments Due</u>	<u>Total Outstanding Current and Delinquent Assessments</u>
1993-94	52	52	100.0%	-
1994-95	49	48	98.0%	1
1995-96	51	50	98.0%	1
1996-97	125	125	100.0%	-
1997-98	-	-	0.0%	-
1998-99	-	-	0.0%	-
1999-00	-	-	0.0%	-
2000-01	-	-	0.0%	-
2001-02	-	-	0.0%	-
2002-03	-	-	0.0%	-

SOURCE: City Finance Department

CITY OF LODI
 RATIO OF NET GENERAL BONDED DEBT
 TO TAXABLE ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
 LAST TEN FISCAL YEARS
 (Amounts in Thousands)

<u>Fiscal Year</u>	<u>Population</u>	<u>Gross Assessed Value</u>	<u>Gross Bonded Debt</u>	<u>Debt Payable From Enterprise Revenue</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1993-94	54	2,415,837	10,840	10,270	570	0.0236%	10.58
1994-95	55	2,471,754	11,379	10,174	1,205	0.0488%	21.91
1995-96	54	2,556,328	15,078	10,078	5,000	0.1956%	92.59
1996-97	55	2,593,001	24,948	9,978	14,970	0.5773%	272.18
1997-98	56	2,648,573	24,372	9,872	14,500	0.5475%	258.93
1998-99	57	2,724,793	23,776	9,762	14,014	0.5143%	245.86
1999-00	58	2,874,167	23,146	9,636	13,510	0.4700%	232.93
2000-01	59	3,060,725	72,911	59,930	12,981	0.4241%	220.02
2001-02	59	3,298,994	101,675	74,930	26,745	0.8107%	453.31
2002-03	60	3,592,392	143,748	117,733	26,015	0.7242%	433.58

SOURCE: City Finance Department

CITY OF LODI
COMPUTATION OF DIRECT AND OVERLAPPING GENERAL BONDED DEBT
June 30, 2003

		<u>Total COP</u>	<u>Percent Applicable</u>	<u>City's Share of Debt</u>
DIRECT DEBT:				
CERTIFICATE OF PARTICIPATION	\$	26,015,000	100.00%	\$ 26,015,000
OVERLAPPING DEBT:				
NONE		<u>0</u>		<u>0</u>
Total	\$	<u><u>26,015,000</u></u>		\$ <u><u>26,015,000</u></u>

DEBT RATIOS
June 30, 2003

Ratio of Direct Overlapping Debt to Assessed Full Cash Value = 26,015,000 / 3,592,392,000	0.72%
Direct and Overlapping Debt Per Capita = 26,015,000 / 60,521	\$430
Taxable Assessed Full Cash Values Per Capita = 3,592,392,000 / 60,521	\$59,358

SOURCE: City Finance Department

**CITY OF LODI
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2003**

Assessed Full Cash Value as of June 30, 2003 (1)	\$ <u>3,592,392,000</u>
Debt Limit - 15 Percent of Assessed Full Cash Value (2)	\$ 538,858,800
Amount of Debt Applicable to Debt Limit	<u>0</u>
LEGAL DEBT MARGIN	\$ <u>538,858,800</u>

- (1) Assessed Value before exemptions applicable to 2002-03 Tax Roll
(2) Section 43605 California Government Code

SOURCE: San Joaquin County Auditor/Controller's Office
City Finance Department

CITY OF LODI
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
 GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 LAST TEN FISCAL YEARS
 (Amounts in Thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures</u>	<u>Percent of Debt Service to Governmental Expenditures</u>
1993-94	\$ 165	\$ 15	\$ 180	\$ 24,949	0.72%
1994-95	114	8	122	26,246	0.46%
1995-96	118	4	122	30,431	0.40%
1996-97	*	*	*	37,763	*
1997-98	470	818	1,288	45,585	2.83%
1998-99	485	797	1,282	34,797	3.68%
1999-00	505	777	1,282	35,694	3.59%
2000-01	530	755	1,285	45,877	2.80%
2001-02	555	679	1,234	51,489	2.40%
2002-03	730	1,220	1,950	52,991	3.68%

*Zero balances occurred in 1996-97 due to general obligation bonds paid off in 1995-96.

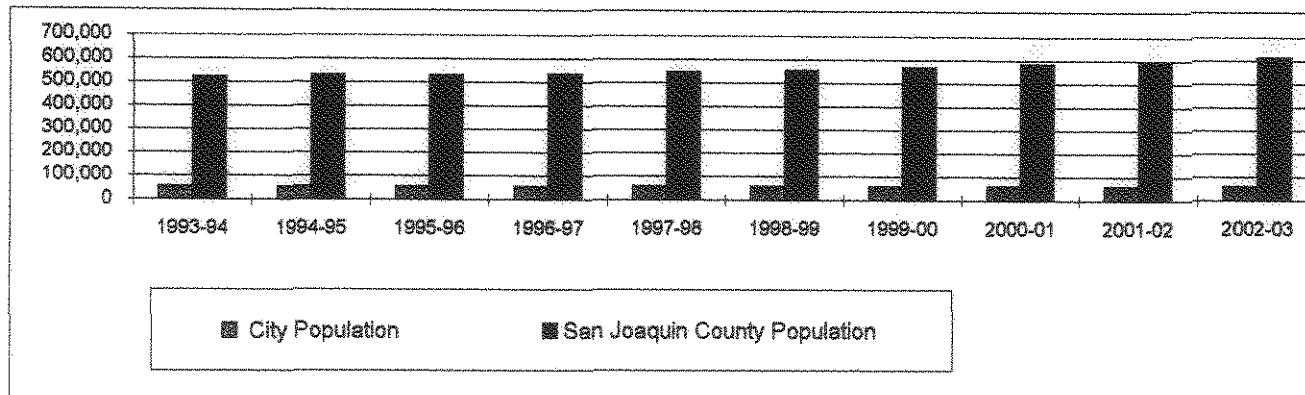
SOURCE: City Finance Department

**CITY OF LODI
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Current Fiscal Year's Debt Service Requirements			Coverage
				Principal	Interest	Total	
1993-94	\$ 3,454,258	\$ 2,030,628	\$ 1,423,630	\$ 100,000	\$ 705,690	\$ 805,690	1.77
1994-95	3,596,313	2,489,307	1,107,006	110,000	700,355	810,355	1.37
1995-96	3,339,315	3,301,761	37,554	110,000	696,357	806,357	0.05
1996-97	3,444,597	2,863,017	581,580	115,000	688,818	803,818	0.72
1997-98	3,946,058	2,913,969	1,032,089	120,000	682,218	802,218	1.29
1998-99	3,935,006	2,957,162	977,844	125,000	675,030	800,030	1.22
1999-00	3,874,750	3,146,931	727,819	140,000	666,770	806,770	0.90
2000-01	4,697,052	4,336,384	360,668	145,000	658,070	803,070	0.45
2001-02	4,138,729	4,807,716	(668,987)	150,000	648,920	798,920	(0.84)
2002-03	5,760,379	4,380,114	2,380,265	160,000	639,000	799,000	2.98

SOURCE: City of Lodi Finance Department

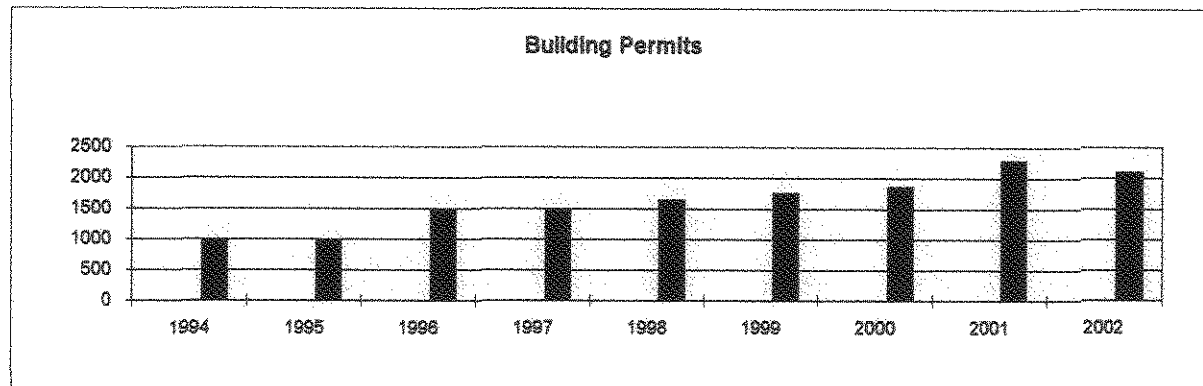
**CITY OF LODI
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**



Fiscal Year	Square Miles	City Population	Population Percent Change	San Joaquin County Population	Population Percent of County	Rank in Size of California Cities
1993-94	12.14	53,000	0.2%	521,500	10.2%	124
1994-95	12.32	53,575	1.1%	530,700	10.1%	121
1995-96	12.32	54,473	1.7%	528,300	10.3%	81
1996-97	12.32	54,800	0.6%	535,420	10.2%	123
1997-98	12.32	55,700	1.6%	545,200	10.2%	124
1998-99	12.32	56,900	2.2%	554,400	10.3%	124
1999-00	12.50	57,900	1.8%	566,600	10.2%	125
2000-01	12.60	58,600	1.2%	583,700	10.0%	126
2001-02	12.62	59,431	1.4%	596,000	10.0%	129
2002-03	12.69	60,500	1.8%	613,500	9.9%	184

SOURCE: State of California, Department of Finance, Demographic Research Unit.
City Finance Department Budget

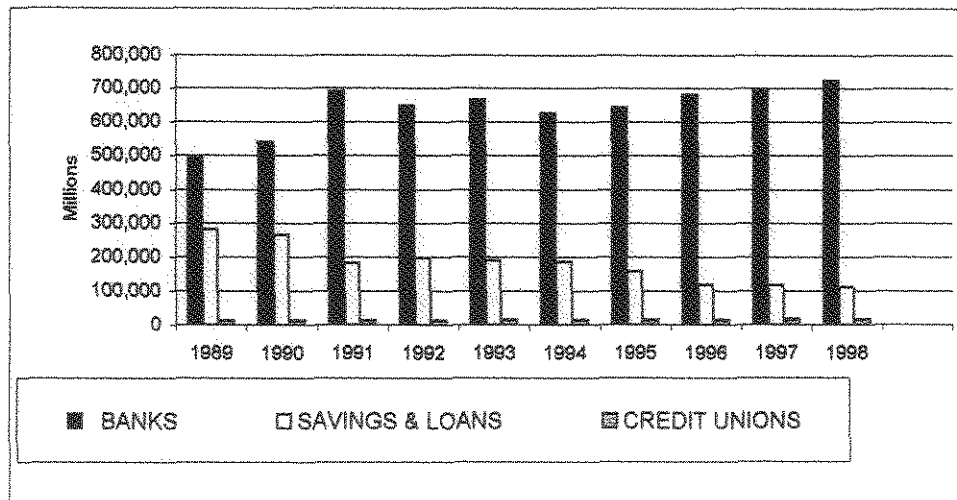
**CITY OF LODI
CONSTRUCTION ACTIVITY
LAST TEN FISCAL YEARS**



Fiscal Year	Number of Building Permits Issued	Percent Change		Estimated Valuation (In thousands)	Percent Change
1994	995	10.19%	\$	31,517	73.91%
1995	994	- .10%		44,881	42.40%
1996	1464	47.28%		29,019	-35.34%
1997	1486	1.50%		57,452	97.96%
1998	1632	9.83%		59,790	4.07%
1999	1749	7.17%		74,012	23.79%
2000	1856	6.12%		77,613	4.87%
2001	2275	22.58%		104,380	34.49%
2002	2090	-8.13%		69,693	-33.23%
2003	2492	19.23%		92,815	33.18%

SOURCE: City Community Development Department

**CITY OF LODI
BANK DEPOSITS
LAST TEN FISCAL YEARS
(Amounts in Millions)**



Fiscal Year	BANKS	SAVINGS & LOANS	CREDIT UNIONS
1989	\$ 492,836	\$ 282,339	\$ 14,111
1990	540,545	267,501	12,813
1991	691,677	183,936	12,465
1992	649,252	198,756	13,893
1993	666,342	191,014	15,405
1994	627,132	186,158	15,689
1995	643,109	159,276	16,036
1996	682,223	121,183	15,721
1997	698,080	118,200	16,894
1998	725,210	113,431	17,729

Source: California State Department of Banking-
Licensing & Statistics Section

CITY OF LODI
PRINCIPAL EMPLOYERS
JUNE 30, 2003

<u>Employer</u>	<u>Activity</u>	<u>Employees</u>
Lodi Unified School Dist.	Education	2,800
Lodi Memorial Hospital	Health Care	1,045
General Mills	Cereals and Food Mixes	550
Pacific Coast Producers	Cannery	500
City of Lodi	Government	457
Wal-Mart	General Merchant	330
CertainTeed	PVC Pipe Manufacturer	113
Target	General Merchant	200
Valley Industries	Trailer Hitches	335
Farmers and Merchants Bank	Banking	162

SOURCE: City of Lodi Community Development Department

CITY OF LODI
PRINCIPAL TAXPAYERS
JUNE 30, 2001*

<u>Property Owner</u>	<u>Land Use</u>	<u>Assessed Valuation</u>	<u>Percent of Total (1)</u>
General Mills, Inc.	Food Processing	\$ 171,116,463	5.94%
Pacific Coast Producers	Manufacturing	59,325,814	2.06%
Certaiteed Corporation	Manufacturing	15,531,735	0.54%
Dart Container Corporation	Warehousing	13,486,205	0.47%
King Video Cable Company	Communications	12,363,403	0.43%
Edmund N. Richmond	Industrial	11,852,374	0.41%
Wal Mart Stores	Department Store	10,893,893	0.38%
Wallace Computer Service	Warehousing	10,854,802	0.38%
Interlake Material Handling, Inc	Industrial	10,837,238	0.38%
Dayton Hudson Corporation	Department Store	10,504,048	0.36%
		<u>\$ 326,765,975</u>	<u>11.35%</u>

(1) Local Secured Assessed Valuation: 2,880,201,262

Source: San Joaquin County Assessor's Office
Information on this page is the most recent data available.

CITY OF LODI
SURETY BONDS OF PRINCIPAL OFFICIALS
JUNE 30, 2003

City Manager	\$500,000
Deputy City Manager	500,000
City Attorney	500,000
City Clerk	500,000
Public Works Director	500,000
Police Chief	500,000
Fire Chief	500,000
Finance Director	500,000
Community Development Director	500,000
Electric Utilities Director	500,000
Community Center Director	500,000
Parks and Recreation Director	500,000
Human Resources Director	500,000

City employees are covered by a commercial fidelity bond amounting to a maximum of \$500,000 per loss.

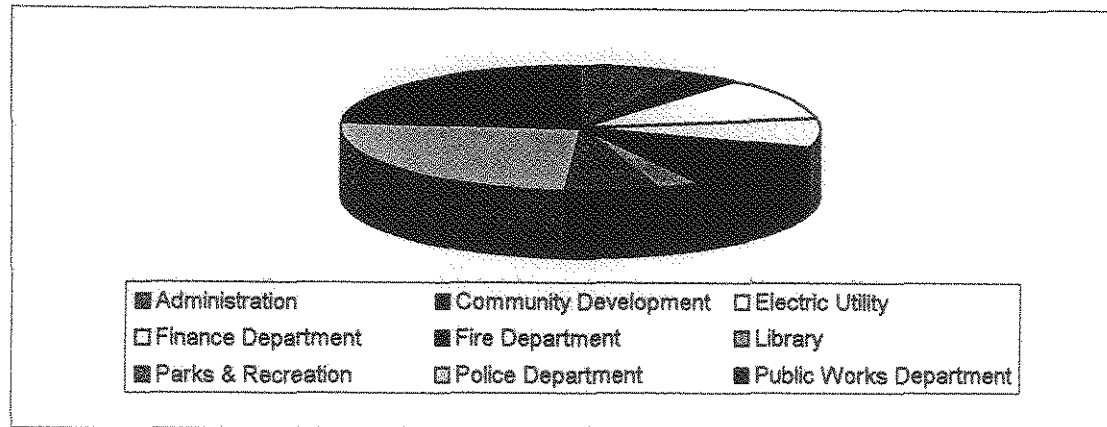
SOURCE: City of Lodi

CITY OF LODI
GANN APPROPRIATION LIMITATION
Last Ten Fiscal Years

FISCAL YEAR	LIMIT BASE	CPI or INCOME	POPULATION GROWTH	GROWTH FACTOR	APPROPRIATION LIMITATION	BUDGET SUBJECT TO LIMIT	VARIANCE
1993-94	34,027,028	1.0272	1.0213	1.0491	35,697,755	16,646,590	19,051,165
1994-95	35,697,755	1.0071	1.0157	1.0229	36,515,234	17,292,960	19,222,274
1995-96	36,515,234	1.0470	1.0131	1.0609	38,739,012	18,583,360	20,155,652
1996-97	38,739,012	1.0467	1.0168	1.0643	41,229,332	19,243,568	21,985,764
1997-98	41,229,332	1.0467	1.0070	1.0540	43,456,825	20,096,975	23,359,850
1998-99	43,456,825	1.0536	1.0120	1.0420	45,785,303	20,491,809	25,293,494
1999-00	45,785,303	1.0453	1.0194	1.0656	48,787,849	20,907,397	27,880,452
2000-01	48,787,849	1.0491	1.0129	1.0626	51,843,597	22,482,923	29,360,674
2001-02	51,843,597	1.0782	1.0190	1.0987	56,959,824	25,610,753	31,349,071
2002-03	56,959,824	0.9873	1.0214	1.0084	57,439,894	28,013,113	29,426,781

SOURCE: City Finance Department

**CITY OF LODI
PERSONNEL AUTHORIZED LAST TEN YEARS
JUNE 2003**



DEPARTMENT	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Administration	22	17	21	24	26	30	32	34	34	37
Community Development	11	11	13	14	14	15	15	17	17	18
Electric Utility	40	38	39	43	44	44	46	47	50	52
Finance Department	36	35	35	34	34	32	34	34	35	38
Fire Department	48	47	48	48	48	49	50	52	55	68
Library	15	15	15	14	14	14	14	14	14	15
Parks & Recreation	29	26	27	26	27	26	26	29	29	34
Police Department	104	104	106	112	112	113	113	114	115	117
Public Works Department	89	86	87	92	94	95	98	103	108	110
Total	<u>394</u>	<u>379</u>	<u>391</u>	<u>407</u>	<u>413</u>	<u>418</u>	<u>429</u>	<u>444</u>	<u>457</u>	<u>489</u>

SOURCE: City of Lodi Finance Department

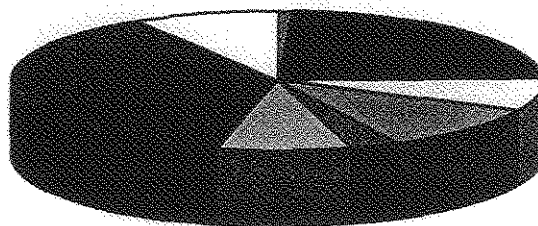
CITY OF LODI
SCHEDULE OF TAXABLE SALES AND PERMITS BY CATEGORY
LAST TEN YEARS
(Amounts in Thousands)

	1993	1994	1995	1996	1997	1998	1999	2000*	2002	2003*
SALES (IN THOUSANDS OF DOLLARS):										
Apparel Stores	\$ 6,467	\$ 6,105	\$ 5,970	\$ 5,651	\$ 5,633	\$ 5,020	\$ 4,778	\$ 4,458	\$ 5,417	\$ 5,696
General Merchandise Stores	60,764	73,765	79,420	84,977	105,423	111,930	120,952	120,263	131,371	144,160
Drug Stores	13,184	13,673	13,295	13,411						
Food Stores	33,033	28,692	33,237	34,029	34,247	34,344	37,328	42,977	43,271	44,448
Packaged Liquor Stores	6,041	5,932	5,664	6,150						
Eating & Drinking Places	39,161	39,714	43,770	44,598	45,349	46,316	49,803	52,860	59,594	68,092
Home Furnishings & Appliances	16,038	14,327	12,396	12,808	12,136	17,319	22,254	17,908	15,886	19,252
Building Materials & Farm Tool	37,539	34,250	31,801	31,858	29,865	32,424	39,369	47,467	46,048	41,772
Auto Dealers & Supplies	85,917	93,198	103,241	102,788	101,933	106,531	123,667	141,640	166,102	201,528
Service Stations	31,221	30,519	34,348	35,095	35,746	29,203	36,491	46,794	45,130	43,212
Other Retail Stores	25,666	26,547	29,261	30,502	39,759	45,689	47,022	48,759	49,262	48,920
Total Retail Stores	355,031	366,722	392,403	401,867	410,091	428,776	481,664	523,126	562,081	617,080
All Other Outlets	96,921	92,594	94,440	116,000	130,660	133,453	143,207	154,590	148,736	141,456
TOTAL	\$ 451,952	\$ 459,316	\$ 486,843	\$ 517,867	\$ 540,751	\$ 562,229	\$ 624,871	\$ 677,716	\$ 710,817	\$ 758,536
PERMITS:										
Apparel Stores	32	25	23	22	28	28	28	28	19	23
General Merchandise Stores	14	15	13	13	22	21	23	24	21	20
Drug Stores	9	9	9	8						
Food Stores	44	47	45	45	47	51	53	59	61	60
Packaged Liquor Stores	8	7	7	7						
Eating & Drinking Places	132	136	144	146	146	151	151	148	160	165
Home Furnishings & Appliances	44	46	46	41	47	43	53	55	63	64
Building Materials & Farm Tool	38	35	29	30	25	22	22	23	24	26
Auto Dealers & Supplies	56	63	62	66	78	81	77	83	83	80
Service Stations	18	19	20	19	17	16	15	15	16	15
Other Retail Stores	182	196	201	197	205	229	256	268	296	303
Total Retail Stores	577	598	599	594	615	642	680	703	743	756
All Other Outlets	929	926	912	918	900	869	875	882	912	894
TOTAL	1506	1524	1511	1512	1515	1511	1555	1585	1655	1650

* First three quarters are actual, the fourth quarter is an estimate.

SOURCE: State Board of Equalization, State of California

**CITY OF LODI
SCHEDULE OF TAXABLE SALES
LAST TEN YEARS**



■ Apparel Stores	■ General Merchandise Stores	□ Drug Stores
□ Food Stores	■ Packaged Liquor Stores	■ Eating & Drinking Places
■ Home Furnishings & Appliances	□ Building Materials & Farm Tool	■ Auto Dealers & Supplies
■ Service Stations	□ Other Retail Stores	

CITY OF LODI
SCHEDULE OF BUSINESS TAX RECEIPTS ISSUED
YEAR ENDED JUNE 30, 2003

<u>TYPE OF BUSINESS</u>	<u>NO. OF BUSINESSES</u>	<u>PERCENT</u>
Located in Lodi:		
Agriculture, Forestry and Fishing	129	3.98%
Mining	0	0.00%
Construction	293	9.03%
Manufacturing	88	2.71%
Transportation and Public Utilities	42	1.29%
Wholesale trade	87	2.68%
Retail trade	680	20.96%
Finance, Insurance and Real Estate	265	8.17%
Services	1,660	51.18%
Total	<u>3,244</u>	<u>100.00%</u>
Located outside Lodi:		
Agriculture, Forestry and Fishing	34	3.57%
Mining	0	0.00%
Construction	577	60.55%
Manufacturing	10	1.05%
Transportation and Public Utilities	12	1.26%
Wholesale trade	42	4.41%
Retail trade	40	4.20%
Finance, Insurance and Real Estate	35	3.66%
Services	203	21.30%
Total	<u>953</u>	<u>100.00%</u>
Grand Total	<u>4,197</u>	

SOURCE: City Finance Records

CITY OF LODI
MISCELLANEOUS STATISTICS
JUNE 30, 2003

POPULATION		ELECTRIC UTILITY	
Population	60,521	Number of Customers	24,634
Assessed Value	\$3.4b	Energy Sales (KWH)	36,666,340
Building Permits Issued	2,090	Peak Demand(MW)	110.5
Date of Incorporation	December 6, 1906		
Form of Government	Council-Manager	PARKS & RECREATION	
Employees	457	Parks Developed	25
Area	12.616	Acres Parks Developed	293
		Parks Undeveloped	5
		Acres Parks Undeveloped	98.5
		Community Center	1
		Swimming Pools	3
		Tennis Courts	11
		Boat Ramp	1
		Playgrounds	17
		Ball Parks Various	26
		Soccer Fields	37
		Football Field	1
		Handball/Basketball/Volleyball Courts	7
		Horseshoe Pits	10
FIRE PROTECTION			
Number of Stations	4		
Number of Firefighters	44		
Number of Reserve Firefighters	0		
Number of Calls Answered	4,333		
POLICE PROTECTION			
Number of Stations	1		
Number of Police Officers	78		
Number of Reserve Officers	4		
Number of Support Personnel	37		
Number of Calls Answered	41,282		
PUBLIC WORKS		EDUCATION	
Miles of Streets	180.8	Elementary Schools (public)	27
Miles of Alley Ways	16	Middle Schools (public)	7
Number of Street Lights	6,033	High Schools (public)	5
Number of Traffic Signals	53	Elementary Schools Enrollment (public)	14,127
		Middle Schools Enrollment (public)	4,112
		High Schools Enrollment (public)	8,643
WATER/WASTEWATER			
Miles of Water Mains	212	K-8 Schools (private)	5
Miles of Wastewater Lines	174	High Schools (private)	2
Number of Wastewater Treatment Plants	1	K-8 Enrollment (private)	1,427
Average Daily Treatment	6.6 MG	High School Enrollment (private)	333
Maximum Daily Capacity	8.5 MG		
HOSPITALS			
Number of Hospitals	1		
Number of Patient Beds	181		



SINGLE AUDIT REPORTS

CITY OF LODI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Federal Grantor Pass-through Grantor or Direct Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through San Joaquin County Department of Planning and Building Inspection			
Community Development Block Grant/Entitlement Grants:			
2002-2003 Program Year	14.228	N/A	\$ 215,851
2001-2002 Program Year	14.228	N/A	355,967
2000-2001 Program Year	14.228	N/A	184,302
1999-2000 Program Year	14.228	N/A	71,363
1998-1999 Program Year	14.228	N/A	21,749
1995-1996 Program Year	14.228	N/A	439
Total Community Development Block Grant/Entitlement Grants			<u>849,671</u>
Total U.S. Department of Housing and Urban Development			<u>849,671</u>
U.S. Department of Justice			
Direct:			
Local Law Enforcement Block Grant	16.592	2001-LB-BX-1235	73,961
Local Law Enforcement Block Grant	16.592	2002-LB-BX-0591	<u>1,591</u>
Total Local Law Enforcement Block Grant			<u>75,552</u>
Passed through State Office of Criminal Justice Planning:			
Byrne Formula Grant Program	16.579	DC97080390	<u>83,672</u>
Total U.S. Department of Justice			<u>159,224</u>
U.S. Department of Transportation			
Passed through California Department of Transportation			
Highway Planning and Construction	20.205	TS21	241,716
Highway Planning and Construction	20.205	CML-5154(027)	<u>1,559,601</u>
Total Highway Planning and Construction			<u>1,801,317</u>
Federal Transit Formula Grant:			
2001-2002 Program Year	20.507	N/A	24,830
2000-2001 Program Year	20.507	N/A	<u>246,001</u>
Total Federal Transit Formula Grant			<u>270,831</u>
Total U.S. Department of Transportation			<u>2,072,148</u>
Total federal awards			<u>\$ 3,081,043</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF LODI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2003, presents the activity of all federal award programs of the City of Lodi, California (City). The City reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the SEFA.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in governmental fund types and the full accrual basis of accounting for grants accounted for in proprietary fund types, as described in Note 1 of the City's basic financial statements.

NOTE 3 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information and Office of Management and Budget's Catalog of Federal Domestic Assistance.

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant/Entitlement Grants	14.228	\$ 272,938
Highway Planning and Construction	20.205	\$1,559,601



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Members of City Council
City of Lodi, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the fiscal year ended June 30, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 13, 2004. Our report included an explanatory paragraph discussing the City's implementation of new accounting principles issued by the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one

or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Company LLP

Certified Public Accountants

Sacramento, California

January 13, 2004



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Members of City Council
City of Lodi, California

Compliance

We have audited the compliance of the City of Lodi, California (City), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal award programs for the fiscal year ended June 30, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 13, 2004. Our report included an explanatory paragraph discussing the City's implementation of new accounting principles issued by the Governmental Accounting Standards Board. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP

Certified Public Accountants

Sacramento, California

January 13, 2004

CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? No
- Reportable conditions identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

- Material weaknesses identified? No
- Reportable conditions identified that are not considered to be material weaknesses? None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Identification of major programs:

CFDA #14.228
CFDA #20.205

Community Development Block Grant/Entitlement Grants
Highway Planning and Construction

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

CITY OF LODI
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Finding No. 02-01 – Federal Transit Formula Grants (20.507) – Reporting

In accordance with OMB Circular A-133, grantees are responsible for maintaining internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of their federal programs.

In accordance with the March 2001 A-133 Compliance Supplement, the following is the control objective for reporting:

To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

In the course of performing control testwork for the Federal Transit Formula Grant, we noted that one individual was responsible for preparing and submitting the City's Financial Status Reports. These reports were not reviewed by another party before they were submitted to the awarding agency.

Recommendation

To help ensure that the City's required federal reports are submitted accurately, we recommend that a review be performed by a party independent of the preparer. The performance of a review of all reports prior to submission to the federal awarding agency will help ensure the accuracy of the reports.

Status

The City has established that future submittals of the Financial Status Reports will be reviewed by both Public Works and Finance prior to submission.

file 5-5-04

RECEIVED

MAR - 4 2004

City Clerk
City of Lodi

CITY OF LODI

Report to Management

For the Fiscal Year Ended June 30, 2003

CITY OF LODI
Report to Management
For the Fiscal Year Ended June 30, 2003

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February 6, 2004

To the City Council
of the City of Lodi

We have audited the financial statements of the City of Lodi, California (City) for the fiscal year ended June 30, 2003, and have issued our report thereon dated January 13, 2004. Professional auditing standards require that we provide you with the following information related to our audit.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 16, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

II. Significant Accounting Policies

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

As described in Note 1 to the financial statements, the City changed accounting policies related to financial statement presentation and disclosures by adopting Governmental Accounting Standards Board (GASB) Statement Nos. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and 38, *Certain Financial Statement Note Disclosures*, in 2003. The City also changed accounting policies related to recognition of certain liabilities and expenditures by adopting GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, in 2003. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in Note 17. The City also changed accounting policies related to derivative disclosures by adopting GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, in 2003.

During 2003, the City executed two transactions with Citigroup, which comprised 1) the termination of an existing \$42 million fixed-to-floating swap maturing 2014 and 2) the execution of a new \$42 million fixed-to-floating swap maturing 2009. In accordance with GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, the City has made the required disclosure in Note 8 to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were (1) depreciation, (2) allowance for doubtful accounts, (3) compensated absences, and (4) self-insurance liability. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

IV. Audit Adjustments

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City’s financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we posed, whether recorded or unrecorded by the City, either individually or in aggregate, indicate matters that could have a significant effect on the City’s financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VII. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

VIII. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City of Lodi and is not intended to be and should not be used by anyone other than these specified parties.

Macías, Giral & Company LLP

Certified Public Accountants

Sacramento, California

February 6, 2004

City of Lodi
Schedule of Uncorrected Misstatements
June 30, 2003

PJE #	Opinion Unit		Fund	Fund	Account Description	Asset	Liability	Equity	Revenue	Expense / Expenditure
	Activity	Fund								
1	Business-type	Remaining	Transit Fund	Transit Fund	Accumulated Depreciation	2,921	-	-	-	-
	Business-type	Remaining	Transit Fund	Transit Fund	Depreciation expense	-	-	-	-	(2,921)
To adjust depreciation expense per the financial statements to detailed spreadsheet.										
2	Business-type	Electric	Electric	Electric	Depreciation Expense	4,452	-	-	-	-
	Business-type	Electric	Electric	Electric	Accumulated Depreciation	-	-	-	-	(4,452)
To adjust depreciation expense per the financial statements to detailed spreadsheet.										
3	Business-type	Wastewater	Wastewater	Wastewater	Depreciation expense	1,144	-	-	-	-
	Business-type	Wastewater	Wastewater	Wastewater	Accumulated Depreciation	-	-	-	-	(1,144)
To adjust depreciation expense per the financial statements to detailed spreadsheet.										
4	Governmental	-----	-----	-----	Accumulated Depreciation	115,142	-	-	-	-
	Governmental	-----	-----	-----	Net assets, beginning of year	-	-	351,486	-	-
	Governmental	-----	-----	-----	Depreciation expense	-	-	-	-	(466,628)
To adjust depreciation expense to actual, as this amount represents an additional year of depreciation										
5	Governmental	Remaining	ISF	ISF	Depreciation expense	-	(1,419)	-	-	-
	Governmental	Remaining	ISF	ISF	Accumulated Depreciation	-	-	-	-	1,419
To adjust the workers compensation claims liability to the 2002 actuarial study 70% confidence level.										
6	Governmental	-----	-----	-----	Debt Principal	-	1,380	-	-	-
	Governmental	-----	-----	-----	Cash	(1,380)	-	-	-	-
To adjust West America capital lease payment to the 'debt service - principal payments' expenditure line.										
7	Business-type	Wastewater	Wastewater	Wastewater	Interest payable	-	53,250	-	-	-
	Business-type	Wastewater	Wastewater	Wastewater	Net assets, beginning of year	-	-	(54,077)	-	-
	Business-type	Wastewater	Wastewater	Wastewater	Interest expense	-	-	-	-	827
To reduce interest expense and interest payable, to properly accrue interest expense at June 30, 2003.										
8	Governmental	General	General	General	Due from other funds	(229,120)	-	-	-	-
	Governmental	General	General	General	Advance to other funds	229,120	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Due to other funds	-	229,120	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Advances from other funds	-	(229,120)	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Due from other funds	(763,291)	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Advance to other funds	763,291	-	-	-	-
	Governmental	Remaining	Streets	Streets	Due to other funds	-	690,291	-	-	-
	Governmental	Remaining	Streets	Streets	Advances from other funds	-	(690,291)	-	-	-
	Governmental	Remaining	Hutchings Street Square	Hutchings Street Square	Due to other funds	-	73,000	-	-	-
	Governmental	Remaining	Hutchings Street Square	Hutchings Street Square	Advances from other funds	-	(73,000)	-	-	-
	Business-type	Electric	Electric	Electric	Due from other funds	(2,050,000)	-	-	-	-
	Business-type	Electric	Electric	Electric	Advance to other funds	2,050,000	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Due to other funds	-	2,050,000	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Advances from other funds	-	(2,050,000)	-	-	-
	Business-type	Water	Water	Water	Due from other funds	(1,396,764)	-	-	-	-
	Business-type	Water	Water	Water	Advance to other funds	1,396,764	-	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Due to other funds	-	1,396,764	-	-	-
	Governmental	Capital Outlay Reserve	Capital Outlay Reserve	Capital Outlay Reserve	Advances from other funds	-	(1,396,764)	-	-	-

To reclass due to/from that are long-term in nature to advance from/to.